PepsiCo, Inc. Annual Report 1981

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PepsiCo, Inc.

PepsiCo operates in five business segments: beverages, food products, food service, transportation, and sporting goods. Each division develops its own plans and goals consonant with its operating environment and PepsiCo's corporate objectives.

The corporation's steady growth is based upon high performance standards, a flexible approach to marketing challenges, and the integrity of its products, people, and business practices. Also, the premium placed on results has helped to make PepsiCo products and services brand leaders in the fields in which they compete.

Known around the world, PepsiCo is synonymous with leisure time activity. Its marketing and service divisions, all in growth fields, are synchronized to the popular basics of everyday life.

Highlights of Another Record Year

Earnings per share rose 13 percent and net income increased 14 percent.

Return on shareholders' equity remained at a near record 21.7 percent.

Total sales and revenues increased 18 percent.

Aided by the Pepsi Challenge, our domestic soft drink division outpaced the growth rate of the industry by nearly two-to-one.

Frito-Lay – PepsiCo's largest profit contributor – added another year of significant gains in sales and profits.

International snack foods, spearheaded by the Mexican operation, grew 52 percent in profitability.

Dramatic gains were made in Food Service, with sales up 23 percent and operating profits up 38 percent.

Key operating divisions demonstrated unit volume gains in an extremely competitive market, outdoing industry growth rates.

Letter to Our Shareholders

PepsiCo had another excellent year in 1981. Our strength in products, people, and capital resources enabled us to show high rates of growth and profitability even though many of our key markets continued to experience economic difficulties and competitive pressures continued to intensify. Our record of annual gains in sales and earnings remains unbroken over the 17 years since PepsiCo was formed by the merger of Pepsi-Cola Company and Frito-Lay.

Sales and revenues grew 18 percent to slightly over $7 billion and net income rose 14 percent to $333.5 million. Earnings per share advanced 13 percent to $3.61 from $3.20 in 1980. All of these comparisons exclude the impact of the extraordinary charge in 1980 for the write-off of motor carrier operating rights.

A changeover to last-in, first-out (LIFO) accounting for certain inventories had the effect of reducing net income in 1981 by $4.6 million, or five cents per share. Before this LIFO adjustment, net income was up 16 percent to $338.1 million and earnings per share rose 14 percent to $3.66.

PepsiCo remains committed to volume growth and increasing market share. Largely because of continuing increases in marketing expenses related to this commitment, our operating profits (before interest and taxes) grew somewhat slower—at 12 percent—in 1981, and our profit margin at the operating level declined slightly from 9.6 percent to 9.2 percent. At the bottom line, however, our key measures of financial performance continued at the high levels of the prior year. Return on shareholders' equity was sustained at 21.7 percent, while return on assets

Donald M. Kendall (right), chairman of the board and chief executive officer, with Andrall E. Pearson, president and chief operating officer.

employed improved to 15.2 percent from 14.7 percent in 1980.

Capital investment was carefully managed to assure completion of projects required for future growth, with expenditures slightly below the prior year, at $412 million.

Strong cash flow from operations and special attention to financing costs enabled us to slow the rate of growth in net interest expense considerably in 1981. Our ratio of total debt to total capital employed increased slightly from 35.6 in 1980 to 38.2 percent, reflecting some temporary financing late in 1981, which will be substantially liquidated in 1982. Excluding this financing, the debt ratio declined to 31.7 percent.

All of PepsiCo's business segments registered gains in sales and operating profits in 1981, except for a small profit decline in Transportation. Particularly strong gains were achieved by the Food Products and Food Service segments. Pizza Hut and Taco Bell, combined, passed the billion-dollar mark in sales and advanced to a new all-time high in profits. Wilson Sporting Goods also made substantial progress in 1981, setting a new sales record and achieving its third straight year of increased profits. Our Beverage segment managed a modest gain in operating profits, reflecting excellent profit growth in the United States but a profit decline in foreign operations, where the total industry continued to be affected by unfavorable economic conditions.

In competitive terms, all of our businesses achieved strong performance in the marketplace. In the key soft drink and snack food businesses, unit volumes increased at rates well above industry trends. Snack food unit volumes reflected important growth of about six percent domestically and 16 percent internationally, while soft drink domestic case sales rose six percent and foreign case sales grew about 2.5 percent. Similarly, Food Service achieved a gain in real volume per outlet against the current of sluggish trends in the restaurant industry. Also, our Transportation and Sporting Goods divisions managed to increase unit volumes in their businesses, despite the unfavorable trends prevailing in their sectors of the economy. A detailed review of each of our business segments begins on page eight of this report.

The Board of Directors raised the dividend in May 1981 to the annual rate of $1.46, up 12 percent from the prior rate of $1.30.

In last year's Report, we called attention to the high United States federal income taxes we were paying when earnings were adjusted for inflation. We are pleased that some action has been taken in Washington, particularly in the Economic Recovery Tax Act of 1981, to relieve this burden. We hope the government will continue on a course that will stimulate investment and raise productivity, thereby improving the economic well-being for all. PepsiCo strongly supports these efforts and plans to increase by more than 20 percent our investment in the growth of our businesses to approximately half-a-billion dollars in the coming year.

PepsiCo is very much a "people business." In this year's Report, we bring to your attention the array of employees in all phases of our business who have made possible our remarkable record of progress. The individuals pictured throughout this Report are representative of the thousands of others who help to assure PepsiCo's future. We express our appreciation to them and to our customers and to you our shareholders for continuing support.

Donald M. Kendall

Donald M. Kendall
Chairman of the Board and
Chief Executive Officer

Andrall E. Pearson

Andrall E. Pearson
President and Chief Operating Officer

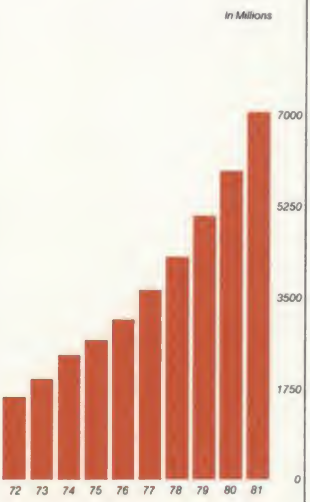
Financial Highlights

	1981*	1980	Change
Revenues	**$7,027,443,000**	$5,975,220,000	+18%
Net income	**$333,456,000**	$291,752,000**	+14%
Net income per share	**$3.61**	$3.20**	+13%
Dividends declared	**$129,944,000**	$114,886,000	+13%
Dividends declared per share	**$1.42**	$1.26	+13%
Shareholders' equity	**$1,640,304,000**	$1,428,923,000	+15%
Shareholders' equity per share	**$17.91**	$15.65	+14%
Return on average shareholders' equity	**21.7%**	21.7%**	–
Plant and equipment expenditures	**$411,594,000**	$445,712,000	–8%

*During 1981 PepsiCo adopted the last-in, first-out (LIFO) method of valuing substantially all domestic inventories. The change had the effect of reducing 1981 net income by $4.6 million (five cents per share).

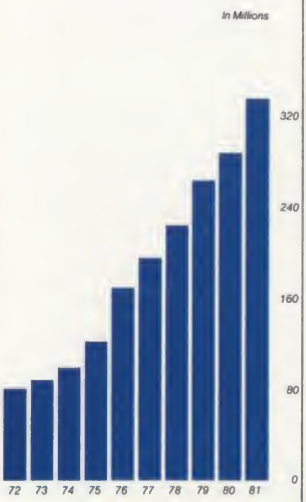
**Before a $17.8 million (19 cents per share) extraordinary charge related to the write-off of motor carrier operating rights.

Revenues



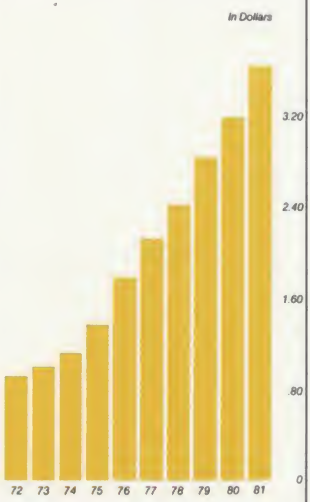
Revenues rose 18 percent in 1981 to over $7 billion, following an increase of 17 percent in 1980.

Net Income



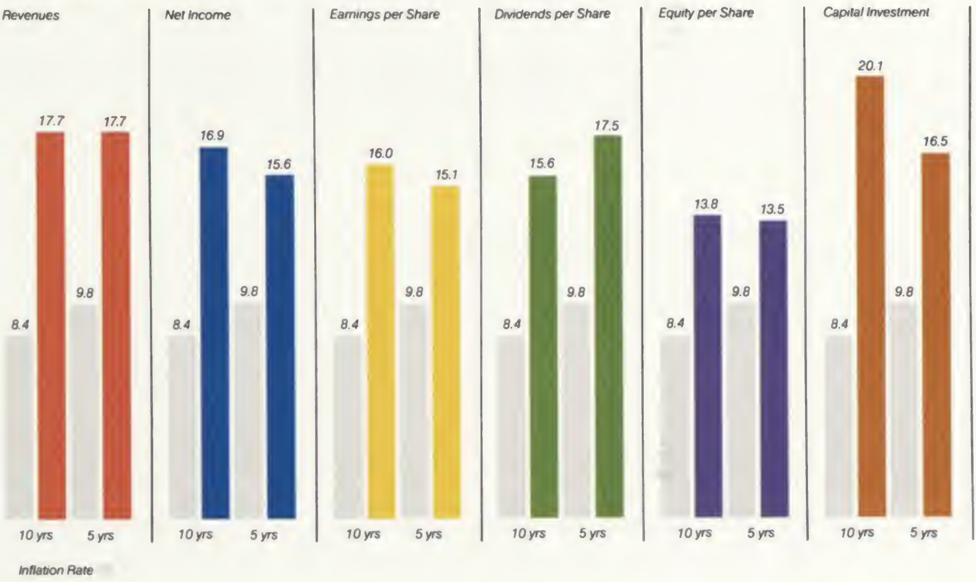
Net income grew 14 percent versus 10 percent in 1980 (before an extraordinary charge). Operating profits were up 12 percent in 1981, following a 20 percent increase the year before.

Earnings per Share



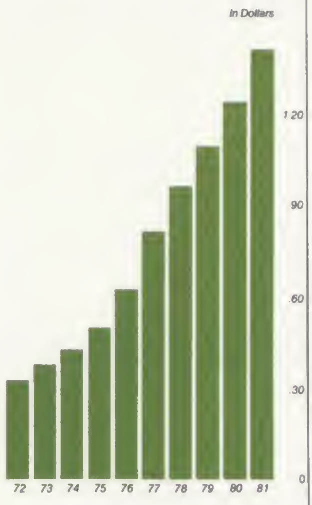
Earnings per share advanced 13 percent in 1981, after a rise of 12 percent last year (before the extraordinary charge).

Our Total Growth Rates *(Last 10 Years and Last 5 Years)*



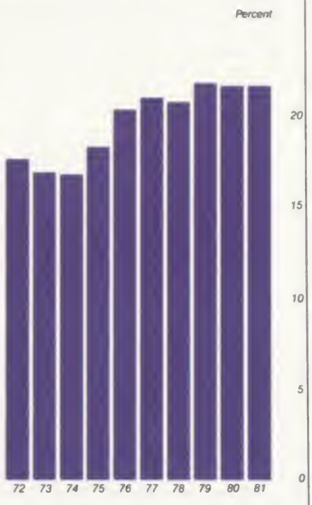
As one of its objectives, PepsiCo endeavors to grow its earnings and dividends at rates well above the prevailing rates of inflation. Over the last 10 years, earnings and dividends grew about 16 percent per year, nearly twice the rate of inflation. Over the last five years, earnings and dividends grew at about 1.5 to 1.8 times the inflation rate. Equity per share and capital investment also showed substantial real growth, after allowing for inflation.

Dividends per Share



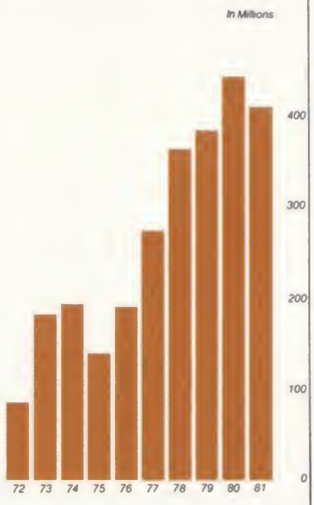
Dividends per share rose for the tenth consecutive year, up 13 percent, after an increase of 14 percent in 1980.

Return on Average Shareholders' Equity



Return on average shareholders' equity remained even with last year's near record level at 21.7 percent.

Capital Investment in Plant and Equipment



Investment in plant and equipment dipped to $412 million in 1981, following a record level of $446 million in 1980, reflecting a concerted effort toward asset management and productivity.

PepsiCo People

PepsiCo has a special commitment to people as a key to its future growth. PepsiCo's results-oriented management philosophy translates into programs which stress hiring talented employees, creating challenging working environments, aligning contribution and pay, and fostering personal development and growth.

The major elements of our personnel programs are:

Recruiting As PepsiCo grows, our need for talented people increases, our standards become more targeted and selective, and our screening methods more sophisticated. We work to determine what it takes to be successful at PepsiCo, and aggressively pursue hiring the best.

Compensation Under our pay for performance concept, managers are involved in setting demanding measurable objectives for their departments, operating units, and for themselves. We periodically evaluate achievement against these goals and make appropriate pay adjustments to ensure that rewards are commensurate with the results achieved.

Benefits PepsiCo's unique flexible benefits system, now available in five divisions, allows employees to select elements from 12 distinct medical and insurance programs to tailor their benefits to their families' special needs.

Communications Recognizing the importance of broad employee participation in identifying and solving problems, normal communication is supplemented by annual surveys of over 25,000 hourly and managerial employees in our three largest domestic divisions. The survey results in plans for improved productivity in a more rewarding work environment and is a key element in our efforts to promote positive employee relations.

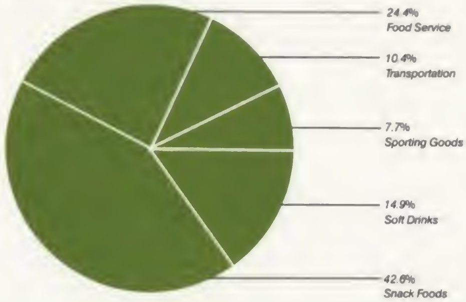
People Planning In line with PepsiCo's strong commitment to internal development of talent, our people planning systems involve formal evaluation and career planning for our key employees. The resulting action plans include skills training, personal and management development, challenging and stretching assignments, and long-term succession planning. Senior management in each division is directly involved and responsible for developing and implementing these plans.

Training and Development All major divisions develop and administer formal programs, ranging from basic skills training to leadership and management development programs focused on their specific requirements.

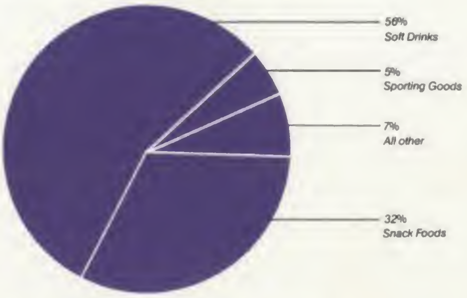
We have in place personnel systems that are producing both the numbers and quality of people we need to manage successfully in the highly competitive environment of the 1980s and beyond. As the corporation grows, the challenge will be to ensure that PepsiCo remains an interesting and attractive place to work. That philosophy, to consistently foster a stimulating climate of personal growth and rewarding work, will allow us to continue to attract, motivate, manage, and keep outstanding people, who will be the biggest single factor in our future success.

Employee Mix

*Domestic Employees**



International Employees



*Does not include over 30,000 part time restaurant workers

Operations Review

Beverages

Soft drinks remain the largest of PepsiCo's businesses. Two divisions, Pepsi-Cola Company and PepsiCo International, market the brand Pepsi-Cola and its allied products in the United States and in 147 foreign countries. Building on a record of steady growth, combined domestic and foreign revenue improved 17 percent over 1980. An outstanding domestic performance, partially offset by difficult economic conditions in many foreign markets, resulted in an overall profit increase of three percent.

Pepsi-Cola Company Another robust year, characterized by strong volume, vigorous salesmanship, creative marketing concepts, and tight cost management, generated excellent profit growth for Pepsi-Cola Company, in spite of a highly competitive business environment. For the sixth consecutive year, the company exceeded industry volume growth with all three of its divisions, Franchise, Food Service, and Pepsi-Cola Bottling Group, turning in impressive results.

Pepsi-Cola Company achieved improved volume trends through marketing programs like the Pepsi Challenge, now in over 70 percent of the country. This pervasive effort translated into sales and profit success at the local level by showing the consumer Pepsi-Cola's advantage over the competition—namely superior taste and quality. Instant winner consumer promotions and collectible bottle cap games,

Right: The Pepsi Challenge is one of the largest consumer taste tests ever conducted. Since 1976, when Pepsi-Cola first challenged the competition on the basis of taste, over eight million persons have participated. Sampling booths, like the one pictured here, have helped to underline the point that, nationwide, more people prefer the taste of Pepsi over Coca-Cola.

Below: Special events are a powerful backup to a winning campaign. Developing these is Joseph Block (center), vice president of consumer marketing programs. These programs become sales building opportunities through the efforts of people like Peter Florian (extreme left), associate marketing manager; Cindy Lane, sales development manager; and Darrell Youngblood (extreme right), key account supervisor.

Left: Sales rallies provide bottlers with a key motivational tool for propelling in-store execution of the Pepsi Challenge program. People like Jim Davie, national director of the Pepsi Challenge, visit these rallies to show how sampling, advertising, in-store merchandising, and aggressive salesmanship are the tools of a winner.

Right: To help Pepsi-Cola continue to outpace the industry and the competition, President and CEO John Sculley (left), has a management team that reflects increasing emphasis on operating efficiency and creative marketing management. Among others, that team includes Robert Dettmer (second left), president of Pepsi-Cola Bottling Group; John Swanhaus (second right), field marketing vice president; and Lawrence Higby, vice president of marketing.

Left: Pepsi-Cola Bottling Group's Food Service Division posted its best results in 1981. A sales force made up of people like Stephen Paris (left), and Richard Ebel, is helping customers build more in-store traffic through effective consumer promotions.

such as the Pepsi Pay-Off under-the-crown promotion, are other examples of this effective value-added marketing concept.

The diet soft drink category has grown faster than any other segment of the industry—and Diet Pepsi and Pepsi Light earned their fair share of the calorie-counter boom, posting impressive sales gains in 1981. Mountain Dew, now the company's second-largest brand, continues to grow in popularity among young adults, its target market, as depicted by the lively "Give Me A Dew" advertising campaign.

In addition to accelerated spending in research and development, the company braced for the more intense operating environment of the 'eighties by making record investments in marketing, management, and in sales professionals. A Sales Development Team was mobilized to help franchised bottlers identify new opportunities for sales growth through drug chains, mass merchandisers, and convenience store channels. Brand marketing programs were customized to respond to the geographic differences and priorities of designated marketing areas. The use of a Sales Development Team provides bottlers with more effective marketing support in a highly-charged competitive environment.

The Food Service Division of Pepsi-Cola Company, which sells syrup to outlets such as chain restaurants, also improved its performance during the year, despite overall reduced customer traffic. Volume grew at a rate substantially faster than that of the fountain syrup market, and Food Service secured several important new restaurant, chain, and convenience store accounts. With real volume recovery anticipated in the restaurant industry during 1982, this segment is well positioned for even better growth in revenues and profits.

Pepsi-Cola Bottling Group (PBG), the company-owned domestic bottling operation, reported significant growth in volume and profitability during 1981. This division has consistently outpaced the soft drink industry in sales growth, share of market gains, and profit improvement. Cost savings and production efficiencies, combined with PBG's innovative marketing programs, afforded improvements in market share and impressive operating gains this

Below: Expanded capital investments in company-owned plants are helping plant and production managers like John Arndt (right), and Patrick Johnson improve efficiency as well as quality control. Computer control of syrup batching represents the latest in soft drink bottling technology and is one of many such PBG investments.

Right: Pepsi-Cola Bottling Group maintained its leadership position in food stores with the help of people like James Maloney, national sales vice president. Maloney (right), and William Wilson, New England vice president of sales, help store owners build product exposure and create consumer awareness.

Above: John Naman, Lebanese-born director of operations for PepsiCo International's Mid-East Region, examines a can in a Riyadh supermarket.

Below: Robert Walker, Cyprus-based region vice president, discusses canning development with Sheikh Ahmad Hamad Algosaibi, chairman of Ahmad Hamad Algosaibi and Brothers, PepsiCo bottlers in Alkhobar.

Left: Nabih Ballout, PepsiCo International's country manager for Saudi Arabia and Yemen, interests a downtown Jidda soft drink vendor in the new can.

Above: PepsiCo's Saudi Arabian franchise bottlers are the first in the Mid-East to manufacture their own cans.

Right: Canning is a key topic in the Riyadh, Saudi Arabian base of PepsiCo bottlers Abdulaziz and Mohamed A. Aljomaih. Right to left: Giovanni Mascico, Mid-East region director of Technical Services; Plant Manager Abdullah Olayyan; General Manager Abdulkarim A. Aljasir; and Production Manager Ali Nehme.

year. PBG's unique management approach, emphasizing functional responsibility and personnel development, has delivered higher levels of operating efficiency while attracting bright and talented people. Future growth is keyed to the creative management techniques encouraged by this system.

During 1981, each of these three Pepsi-Cola Company profit centers demonstrated that aggressive marketing programs, put to work through expert personnel and a strong bottler network, are the critical ingredients for sustained growth in this complex and highly competitive business.

PepsiCo International By the end of 1981, PepsiCo soft drinks were being bottled in more than 600 plants outside the U.S. and distributed in 147 countries. About 76 percent of the division's volume is derived from its Franchise operation, which sells soft drink concentrate to franchised bottlers. The remainder comes from United Beverages International (UBI), the company-owned, 11-country, flagship bottling system of 37 plants and 18 thousand employees.

Competing in a sluggish worldwide economic environment, PepsiCo International succeeded in raising its total sales over the $1 billion mark for the first time. Total bottler case sales grew nearly 2.5 percent in a global market that appears to have declined from its 1980 level.

The Middle East was the Franchise Division's strongest area, with particularly good results coming from expansion in Saudi Arabia, PepsiCo International's sixth biggest market. Other bright spots were Canada, Germany, Egypt, Nigeria, Chile, Jordan, Peru, and the USSR. Some countries, however, particularly in Latin America and the Far East, encountered continuing difficulties from rapid inflation and slow economic growth.

The division looks for long-term growth through expansion into developing markets and through the addition of new products and packages in existing markets. While many established markets were slow in 1981, capacity expansion continued alongside aggressive marketing development

programs. Ten new areas were franchised during the year and nine refranchised in order to broaden the distribution base.

Twenty-one new plants were opened and new packages were added in 19 countries. New products are getting special attention with introductions in 28 countries. Some of the strongest gains from these programs are being seen in Africa, the Middle East, and the Philippines.

In most countries, PepsiCo franchised case sales growth exceeded total soft drink market growth.

Continuing to outperform the international market, UBI's case sales were up substantially over 1980 as inroads were made in most markets. This was achieved in spite of intense competition in Canada, Puerto Rico, South Africa, and Spain. UBI, however, suffered from the effects of inflation in Mexico where higher costs were coupled with the industry's inability to obtain required government permission to raise prices.

Although the international economy has clearly slowed down, reducing real growth for the soft drink industry, as well as for many others, the outlook is positive when ongoing business building actions are taken into consideration.

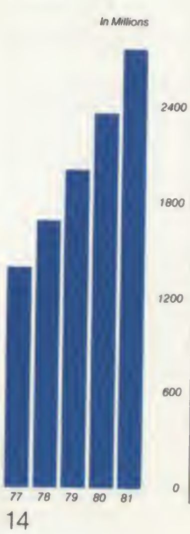
PepsiCo International continues to maintain the resources and strategies that will enable it to perform well in an increasingly demanding and competitive worldwide marketplace.

Above: Some top men behind the PepsiCo success in the Philippines: Cosme de Aboitiz (left), Filipino president of the Pepsi-Cola Bottling Company of the Philippines, with Jose Suarez Garcia (center), vice president of technical services, and Ben Cabrera, general manager of the Muntinlupa plant.

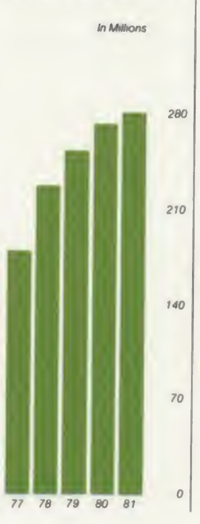
Below: A ring of salesmen listening intently to Luis "Jun" Dabao, Jr., plant general manager, giving his 6:30 a.m. pep talk at Quezon City plant, Manila.

Left: Jan Buchel, vice president and director of International Product Development and Research, and Chris Filmer, UBI's marketing director, discuss the technical aspects of the introduction of Mountain Dew in the Philippines.

Beverages Revenues



Beverages Operating Profit



Above: Looking for a place to put more Mountain Dew, a Filipino salesman is likened to those who once questioned if there were room for another product in a seemingly saturated market. The answer was the fastest success story in PepsiCo International history, selling over 30 million cases in '81, boosting Pepsi-Cola Bottling Company of the Philippines to over 100 million cases for the first time.

Right: Cosme de Aboitiz (center), confers with Richard Ahern (left), president of United Beverages International, and Dave Douglas, director of operations and marketing, the Philippines.

Left: The Total Snack Program is successful because it starts at the top with direct communication between senior Frito-Lay executives and their counterparts in the grocery trade. Frito-Lay President Wayne Calloway (center), and Sales Development Vice President Bill Ammerman present the program to Safeway President Peter McGowan (left), and Senior Vice President John Prinster (right).

Above: In 1981, Frito-Lay introduced a Total Snack Program for the grocery trade. As a result of the program, Frito-Lay route salesmen implement a sophisticated reset of supermarket shelf space based on the results of an in-depth study.

Food Products

PepsiCo's two companies in this business segment are Frito-Lay, America's leading snack food concern, and PepsiCo Foods International, which manufactures and distributes snacks in six nations and Puerto Rico. In 1981, their total domestic and foreign sales rose 19 percent, and profits improved 21 percent over 1980.

Frito-Lay Already PepsiCo's largest profit contributor, Frito-Lay continues to demonstrate outstanding growth. For 1981, sales grew 17 percent, and the company closed out its thirteenth consecutive year of record earnings. In a $14 billion snack food market, the potential of this business is still immense.

All of which is not to say that the 1981 sales environment was easy. A potato shortage and soft economy made the year somewhat difficult. Efficiencies in manufacturing and administration, however, and favorable costs for certain raw materials, offset these difficulties. Frito-Lay's ability to overcome such problems is evidence of the company's unusual resilience.

During the year, in fact, Fritos brand corn chips chalked up the largest sales increase in its 50-year history. Sales of Doritos brand tortilla chips, long the nation's best-selling brand of snack chips, rose 20 percent over 1980. The potato shortage notwithstanding, sales of Lay's and Ruffles brands potato chips grew by 15 percent. Part of the reason for this success was the implementation of the company's Total Snack Program, a major sales strategy in 1981 and one that is expected to be even more effective in 1982.

While Frito-Lay's core brands enjoyed a successful year, the company continued to expand the market with a broad range of new products. For example, the following were test-marketed in 1981: Fritos brand light corn

Above: Marketing Vice President John Cranor speaks to MBA candidates at Stanford University about career opportunities at Frito-Lay. While advancement is predicated solely on job performance, it is interesting to note that more than 450 Frito-Lay managers have advanced degrees, including more than 70 on-staff Ph.D's. For the Marketing Department alone, the division recruits 20 MBA's each year directly from America's top business schools.

Below: The bottom line—Supermarkets can increase their profits as much as eight percent through proper merchandising of highly-profitable, store-door delivered snacks. Sales Vice President Jack DeMarco works with one of Frito-Lay's more than 9,000-strong sales force to reset a Frito-Lay display in a large new supermarket.

Right: One of the great strengths of Frito-Lay's store-door delivery system is the ability to serve smaller stores, convenience chains, and other outlets; this "up and down the street" business comprises 56 percent of Frito-Lay sales. Senior Vice President Bill Korn (left), works with a district sales manager to reset a display in a small country store.

chips, Doritos brand crispy light tortilla chips, Tiffles brand crispy corn chips, and Ta-tos brand potato chips. All of these products will expand their markets in 1982. In addition, Frito-Lay expanded nationally Grandma's brand single-serve cookies and snack bars during 1981, while testing and developing new product entries in this sweet-snack market.

Frito-Lay has a unique advantage in its method of selling and distribution, based on a national delivery system from its 39 plants directly to the store shelf. Already one of the largest field sales organizations in the country, the system grew to over nine thousand salespersons in 1981, while improved route engineering and sales efficiency programs were expanded.

At Frito-Lay plants, gains in labor efficiency accounted for over one million man-hours saved in 1981. And, as a result of larger fryers and improved efficiency, the company has doubled its potato chip production capacity per hour since 1975.

Frito-Lay is by far the leader in the chip segment of the dry snack market and is acquiring strong positions in other snack market categories. For example, capitalizing on the company's store-door system, distribution was broadened in quality cracker and cookie products. Since the market for these baked snacks is as large as Frito-Lay's existing market, this strategy affords high expectations for continued progress in the 'eighties.

PepsiCo Foods International During the last five years, PFI's total sales volume has grown over 25 percent per year and profitability has improved by six times. In 1981, sales volume was up 32 percent over an outstanding 1980, with an even greater improvement in profits.

Sabritas, PFI's flourishing 14-year-old Mexican concern, was the prime contributor to the division's excellent profitability, while sales gains were also recorded in Canada, Brazil, and Puerto Rico. In Mexico, new products have contributed significantly to recent growth: Italian flavored snacks, Chee•tos brand chili flavored snacks, and products with free packets of hot sauce and lime juice were all well received. The addition of more than 500

Left: By using this computer weight-control system to eliminate the five percent "giveaway" problem, Frito-Lay can save the equivalent of one entire plant's production each year.
Reviewing the operation of the system at one of the company's newest plants are (left to right): Plant Manager Max Wright, Engineering Vice President Jerry McInvale, Manufacturing Vice President Jim O'Neal, and Senior Vice President Mike Jordan.

Above: To comply with requirements and because of the inaccuracy of scales, snack food companies have traditionally added more product to each bag. A new weighing system developed by Frito-Lay is beginning to change this procedure. Above, Frito-Lay experts receive immediate weight information about each bag as it comes off the line.

Below: Frito-Lay experts Ed Reap (center), and Sam Frenkil (right), work with Charlotte Plant Manager Max Wright to review yet another innovation: the unique wastewater treatment facilities at the company's newest plants. This novel system can return water to the environment as fresh as the stream from which it enters.

Above: Just one example of companywide efforts to improve productivity in 1981: a technologically advanced computer weight-control system which reduces the "giveaway" of product in overweight bags. Manufacturing Vice President Jim Hennahane (center), and Vancouver Plant Manager Arnold Affonso (far right), work with plant employees to review the operation of the system, which has been refitted into this 10-year-old plant.

Right: Another major innovation—Frito-Lay began a new program to expand employee involvement and decision-making, called "Process Control." The program stresses goal-setting, recognition of improvements, group problem-solving, and greater responsibility for quality at lower employee levels. Mike Jordan (right), and Jim O'Neal observe as a Frito-Lay employee conducts a quality check, part of the "Process Control" program for potato chip production.

Left: Marketing executives review merchandising materials that will support new product introductions in Mexico. Left to right: Beatriz Paredes, Javier Corona, Humberto Fernandez, and Francisco Velasco. All are product managers at Sabritas except Javier Corona, who is commercial manager.

Above: Dawn at the Mexico City Plant— route trucks await loading for another day's work.

Above: Manuel Sanchez, quality control technician, inspects a shipment of potatoes that just arrived at Sabritas' plant, Mexico City.

new sales routes during 1981 strengthened the extensive distribution system.

PFI's joint venture in Japan attained revenue gains and profitability in 1981, particularly due to the introduction of Tako Yaki, an octopus-and-soy flavored cornpuff designed to appeal to Japanese tastes. In Spain, sales were depressed by the recessionary economy and weak peseta; nevertheless, two products were successfully introduced.

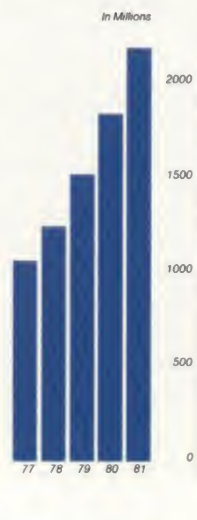
PFI is exploring opportunities to penetrate markets in several Far Eastern countries with high economic growth rates. In April 1981, the division began a new joint venture in Taiwan with the manufacture of potato snacks and products tailored to the local market. A similar operation, after extensive product testing, should be launched in Thailand during 1982.

Expansion into new countries, developing the Canadian and Spanish markets, and improving the successful Mexican and Brazilian operations are the foundation for future growth at PFI. In Brazil, for example, where there are more people than in the rest of South America combined, the snack food industry is in its infancy. Per capita consumption is only one-seventh that of Mexico, and one-twentieth that of the United States. And PFI, having increased unit sales by 35 percent in 1981, has about half of the growing market. Taking advantage of new plant capacity, 60 new sales routes will be added in 1982 and two more new products are planned.

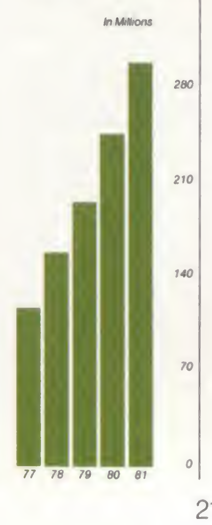
Below: Salesman Fernando Losa—twice-weekly refilling racks in small stores is key to Sabritas' success.

Right: PFI President John J. Kickham and Director of New Business Development Allan Pitman discuss a joint venture proposal with representatives of an Asian food company.

Food Products Revenues



Food Products Operating Profit



Food Service

PepsiCo's Food Service Division comprises three parts: Pizza Hut, Taco Bell, and PepsiCo Food Service International. Our position in the industry is one of leadership with over 5,300 restaurants in operation by the end of 1981, approximately 48 percent of which are franchised.

The division outperformed the sluggish restaurant industry—one that is generally dependent upon a healthy economy. Both Pizza Hut and Taco Bell showed increases in revenues and profits with Pizza Hut, in particular, having an exceptional year. The Food Service Division in total reported revenues up 23 percent and profits up 38 percent to set new records.

Pizza Hut The preeminent pizza and pasta chain, Pizza Hut, established new records in 1981. Total per store sales growth, at 24 percent, was the highest one-year increase in the company's history. Real volume per store grew over 12 percent, one of the highest rates in the restaurant industry.

One of the most significant actions taken during 1981 was the renegotiation of the Pizza Hut agreement with franchisees. This resulted in increased television advertising, a unified approach to local cooperative advertising programs, better quality and consistency of food and service, and a new thrust to improve training. Coupled with attractive

Left: Each year, Human Resource Planning sessions take place across the country in order to identify strengths and weaknesses in management. During such a session, vice president of Personnel, J. Roger King (left), reviews 14-year veteran Western Division Vice President Mike Neimann's (second from left), development plans for his employees, while David Zemelman (center), senior director of Personnel Administration, discusses action plans.

Left: Pan Pizza has been the most successful product in the history of the Pizza Hut system. Developing, introducing, and continually executing an optimum product takes the combined expertise of every department in the company. Here, Jon Prinsell (center), senior vice president of Operations Administration, participates in a product quality review. With him are Frank Briscoe (left), manager of Pizza Development and Ed O'Neill, director of Product Development.

Below: Restaurant Manager Steven Gordon uses the Pizza Hut Individual Skills Training System with two new employees. In-restaurant training of each employee ensures quality products, service, and cleanliness across the country.

Right: Arthur G. Gunther (left), president of Pizza Hut, makes a point about part of the 1982 ad campaign strategy to Bud Gates (standing left), vice president of Marketing; Don Smith (seated right), president of PepsiCo Food Service Division; and Everett Jefferson (standing right), senior vice president of Field Operations. Bud Gates and his staff are responsible for the national advertising campaign of Pan Pizza.

new interiors, the new agreement will provide further impetus to per-store volume growth.

Increased spending on research is aimed at producing faster service and pizza and pasta products of a quality equal to the recently introduced Pan Pizza. The carryout part of the business is receiving increasing media support, resulting in significant gains for this important revenue segment.

In the media-sensitive fast-food business, Pizza Hut television advertising emphasizes the chain's quality. In 1981, there was over 50 percent more broadcast time bought locally through the new cooperative arrangement.

The pizza segment continues to outstrip the industry as a whole, and Pizza Hut is growing faster than its competition.

Taco Bell The year was one of significant change for Taco Bell, one in which the company shifted from being a leading one-dimensional enterprise, whose success was principally propelled by the special quality of its food, to a more growth-oriented multi-dimensional organization, capable of gaining an even larger share of the rapidly expanding Mexican fast-food market. Taco Bell continues to be the number one chain in this market segment. With the development of new regional markets this leadership should grow.

Heightened competition in the fast-food business has generally prompted more spending for promotions, advertising, and discounts in order to maintain volume. Taco Bell has absorbed this pressure and has enlarged its part of the business with new restaurants in major markets. Most of the competition, meanwhile, has tended to stop the development of new units, or even to retrench.

A test of drive-thru facilities, begun in 1980, turned out to be so encouraging that 91 restaurants were converted and 58 new ones built by year-end. More conversions are planned for 1982. Most new restaurants will be fitted with drive-thru windows; and an aggressive advertising campaign will promote this new service as well as the upgraded interior decor.

In a business like Taco Bell's, the customer's most lasting impression is

Above: Vice President of Research and Development Mike Guido, Food Technologist Karen Allen, and Quality Assurance Manager Maryknoll Benner do some testing in new research facilities. Products in various stages of test and introduction include the Taco BellGrande, a chicken item, nachos, and a taco salad.

Below: Vice President of Operations Chuck Tortorice, Regional Operations Manager Dennis Durante, and Training Supervisor Larry Moderno discuss the impact of Taco Bell's new menu board on speed of service. Next year, all company restaurants will be outfitted with the new board, just one of the capacity-boosting systems that will result in improved service.

Left: Vice President of Marketing Dick Deleguardia, President Chuck Boppell, and Vice President of Advertising and Promotions John Moorhead take a look at point-of-purchase materials for 1981's four million dollar Mucho Mucho Give-away game promotion. Armed with greatly expanded resources and a new ad strategy, 1982 will see enhanced support and promotion of new product introduction.

Above: The Taco BellGrande with its hefty portioning and uniquely shaped shell, may be just one of the new products introduced system wide in 1982. With each new product and its marketing potential will come new customers for Taco Bell's growing family of restaurants.

Right: Franchise owner Allen Beebe, and Director of Franchise Services Joe Martin, look at Allen's new drive-thru unit in Northern California. There were 149 drive-thrus in the system by the end of 1981. 1982 will see the opening of 125 and an equal number of existing restaurant conversions.

Left: Larry Cates, general manager of Canadian operations, visits with Restaurant Manager Anna Di-Sabatino at one of the recently opened Taco Bell restaurants in Hamilton, Ontario. Cates gained his experience in the U.S. as senior director of marketing. All other management team members are Canadians, reflecting PepsiCo's goal of developing nationals for international operations.

made across the counter. Accordingly, more effort is being put into training and service than ever before.

PepsiCo Food Service International

This division is represented in 18 countries with 237 restaurants, nearly half of which are in Australia. Development is underway in an additional 10 countries. Formed in 1980, Food Service International is responsible for foreign restaurant operations, both franchised and company-operated, and for operating the Pizza Hut and Taco Bell supply systems in the United States. New development doubled in 1981 and profits from restaurant operations were up substantially over their 1980 level. Earnings from supply operations were also up significantly.

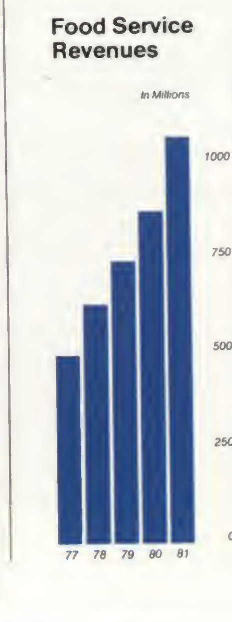
Plans for substantial long-term growth are more ambitious, given significant market opportunity. Thirty new restaurants were opened during 1981, contributing 40 percent of the system's net sales gain. Nine of these were Taco Bell units in Canada, an important expansion into an attractive market.

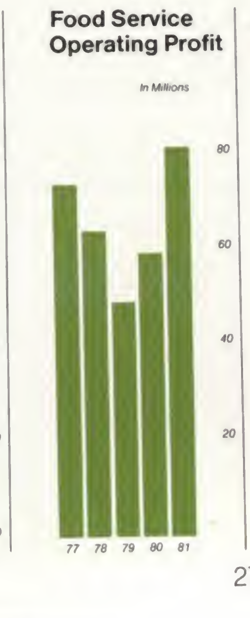
The potential for tremendous expansion abroad, combined with PepsiCo Food Service's strengthening position at home, both imply healthy growth in the years ahead as this division becomes a larger contributor and more exciting part of the corporation.

Left: Growth strategy calls for accelerated penetration of potential markets. Canada is such a market and represents Taco Bell's first expansion outside the U.S. John Daly, restaurant development manager (left), and Al Sampson, construction manager (right), confer with a contractor at a new Toronto construction site.

Below: Division President Gill Butler meets with his key distribution management team in the Atlanta Center targeted for consolidated operations this year. Pictured left to right are Mike Lester, warehouseman; Jim Baxter, vice president Pizza Hut Distribution; Bob Hunter, director of consolidation; Butler; and Marty Moore, vice president of Taco Bell Distribution.

Right: PepsiCo Food Service International is responsible for foreign restaurant operations, both franchised and company-operated, and for operating the Pizza Hut and Taco Bell supply systems in the United States.





Transportation

North American Van Lines, Inc. [NAVL] is a leading household goods mover, rapidly expanding as a large general freight carrier. Lee Way, a major transcontinental motor carrier, offers direct service to 28 states.

North American Van Lines The year was, in fact, another record breaker for NAVL in both revenues and profits. Contributing to this performance were more aggressive pricing, productivity, and cost control improvements, and significant expansion into new markets.

The company has concentrated on improving efficiency and service and, according to information received by the Interstate Commerce Commission, has the best overall service record of the top six moving companies in the United States. The strength of NAVL's Household Goods Group offset less than expected volume growth in the New and High Value Products Groups that was caused by higher interest rates, reduced consumer spending on durable goods, and the consequent midyear drop in factory shipments. This was particularly noticeable in the second half.

Household goods shipments were ahead of 1980, despite the weak housing industry, owing to an increase in military and government accounts. Innovative consumer promotions also increased the COD and national account moving businesses, while 33 new agent locations were established.

NAVL's New Product Division changed its name to North American Commercial Transport. It added a number of new accounts during the year, improved operations and fuel efficiency programs, and identified a number of important new markets. This division's ability to serve those markets will be enhanced in the future by a nationwide general commodities authority approved by the Interstate Commerce Commission in December. The High Value Products Division took advantage

Left: Janis Blair (standing) and her husband, Dave, top-rated owner-operators, explain a procedure to agency staff members during a training session in one of NAVL's mobile classrooms. Throughout the year, four such vans take training on-site nationally to NAVL's agent personnel.

Above: NAVL handles as many as 1,000 household moves a day through one of the most modern computer systems in the industry. Fleet Coordinators Joe Wiktorowicz and Pat Adams discuss a move with Lucy Collins, manager, Order Entry.

Below: Robert and Linda MacDonald, an owner-operator team hauling household goods, check their tractor-trailer unit before starting on an assignment. Contract truckers like the MacDonalds are prime contributors to NAVL's growth in both revenue and service quality.

Above: The local NAVL agent—a hometown businessman who can move you anywhere in the free world—is dedicated to arranging the superior services that make each move go smoothly. The total NAVL agent locations in the U.S. reached 832 in 1981—more than any other van line.

Right: Strategic marketing and financial planning are key ingredients of NAVL's success. Evaluating a survey are NAVL President Ken Maxfield (lower left), and (clockwise): Bill Elliott, vice president, Planning; Rob Fletcher, director of marketing, Commercial Transport Division; and Jim Chadwick, director of marketing, Household Goods Division.

of recent deregulation by capturing major contract carriage agreements and acquired profitable new authorities to expand into markets like aerospace components.

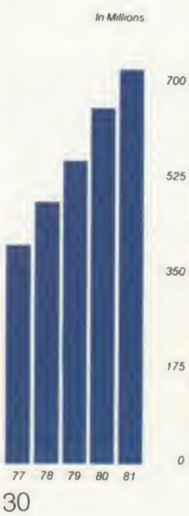
Lee Way Motor Freight Declining industry volume levels associated with the soft economy produced widespread price discounting, resulting in a difficult year for Lee Way. Through excellent service, an innovative contract program, and sales from Chaparral, its newly formed specialized service division, Lee Way fared better than the depressed trucking industry in terms of real growth. Nevertheless, Lee Way experienced a loss in 1981.

In an essentially deregulated environment, a healthy future now depends upon extensive market coverage. For Lee Way, this means adding depth by opening new terminals in its existing market areas, and adding breadth by opening terminals in new major markets. Lee Way opened 14 new terminals in 1981.

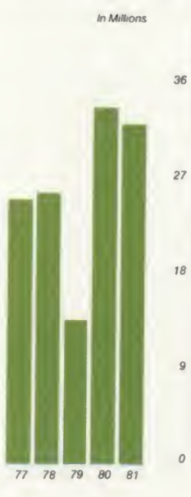
In December, the Interstate Commerce Commission approved Lee Way's application to serve the 48 mainland states. This authority will permit opening additional terminals in large new market areas such as the Middle Atlantic, New England, and Northwest sections of the country.

Lee Way's Chaparral Division concentrates its marketing efforts on full truckload shippers, through a network of over 50 commission agents. Started in 1980, Chaparral enjoyed a strong sales growth and profit performance during the year and is prepared to take swift advantage of the new 48-state marketing area.

Transportation Revenues



Transportation Operating Profit



Above: To support Lee Way's expansion plans, an ambitious manpower development program is in place. The program embraces quality recruitment, training, and promotion of high potential personnel through the ranks to responsible management positions.

Below: Lee Way's management represents years of operations and marketing experience in the transportation industry. Clockwise from top: Dick Frucci, president; Bob Taylor, Dallas Terminal manager; G.A. Sywassink, executive vice president-operations; Ed Pierce, district manager; and Jack Buckley, area sales manager.

Left: From spray painters in its paint shop to welders in its trailer shop, NAVL's Fleet Service Division is prepared to take on almost any job to keep NAVL on the road. Not only tractor and trailer repair and service, but trailer reconditioning and conversions are everyday jobs.

Above: A North American Commercial Transport trailer is loaded at a customer's dock. The division, originally formed to haul furniture and appliances from manufacturer to retailer, has grown to become the nation's largest irregular route carrier of truckload dry freight. With the acquisition of a nationwide general commodity authority, it will serve many additional markets.

Right: NAVL High Value Products Division employs a variety of specialized trailers to meet various shipper requirements.

Left: Racket Sports promotions are formulated and planned in a strategy meeting. In the center, Gene Buwick, vice president Racket Sports Promotion, discusses key programs with his promotional staff.

Above: The introduction of the Wilson Galaxy racket offers consumers a lightweight, large-head racket with the accuracy and control of the Perimeter Weighting System (PWS). Its braided graphite construction provides the ultimate in tennis racket playability.

Sporting Goods

Wilson Sporting Goods concluded the third straight year of earnings improvement and increased sales and return on assets employed, reversing the trends of the late 'seventies. Sales rose 20 percent, setting a new record for Wilson and demonstrating real growth. Operating profits improved 28 percent.

Already a leading company in its markets, Wilson continued to gain share, more solidly positioning itself to capitalize on future opportunities. Its increased emphasis on sales control, research, and strategic planning will enable Wilson to further improve marketing effectiveness and the development of superior new products, while improving profitability and return on assets employed.

In markets that are basically flat, Wilson's innovations in marketing and consumer-oriented programs are being applauded by the trade. A better trained and organized sales force has been a major contributor to recent growth, utilizing in-store promotions, rebates, sweepstakes, and audiovisual aids.

Above: Test results on the Galaxy racket are reviewed by Vice President Racket Sports Marketing Peter Rogers (center), Vice President Research and Development George Mast (right), Group Manager Research and Development Tim Studt, and Business Manager of Performance Rackets Shirley Neumann.

Below: The sales department makes certain that retailers understand key product features. Sales Manager Bill Mitchell (left), and Vice President Retail Sales Terry G. Lee (right), meet with Joe Offner of Sportmart, a major sporting goods retailer in the Chicago area.

Right: Director of Manufacturing Larry Lewis (left), and Production Manager Wes Rutt oversee the production of Performance Rackets. Ricardo Gonzalez works at the machine sander. Careful attention to detail and high production standards are a key to the Wilson Sporting Goods reputation for quality.

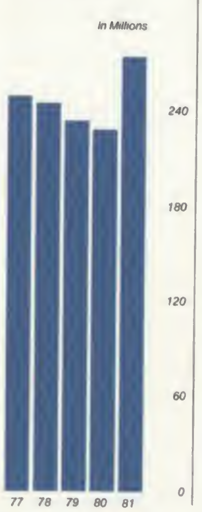
Wilson has stepped up the introduction of new products, gaining important media attention and significant market positions.

In manufacturing, significant improvements in quality control and production scheduling were achieved. Wilson has always been known for quality and will continue to be so as the company continues to improve its efficiency and productivity.

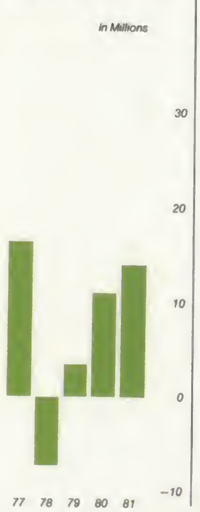
Finally, Wilson's International Division, now about twice its 1978 size, is converting its French and German distributors to company-owned operations, aiming at significantly increasing the rate of growth and profitability. Worldwide participation in tennis, and in sports in general, is on the rise. Indications are that Wilson International, as a large and effective participant, will continue to experience important growth.

Overall, Wilson plans continued gains in sales and profitability as it makes the investments required to continue its new momentum into the 'eighties.

Sporting Goods Revenues



Sporting Goods Operating Profit



Left: (left to right), Golf Pro Stan Ferguson discusses product performance with Phil Knell, vice president sales Pro Golf, Sales Representative Kent Sands, and Greg Dinkins, Midwest Pro Golf division sales manager, who realize the significance of professional product evaluation.

Above: Consumer research keeps Wilson on top of a rapidly changing and advancing industry. Tom Leonard (left), vice president Golf Marketing; Kevin Bowen (center), vice president Marketing Services; and John Hayek, business manager Pro Golf Clubs, go over recent test findings.

Left: This year heralded the introduction of the 1200-GE Golf Clubs. Tests show that they are the most accurate on the course.

Below: Precise financial information is a key ingredient in Wilson's planning process. Vice President and Controller Ed Rand reviews financial data with Assistant Controller Nancy Grottola.

Right: Wilson's attention to education pays off as professionals recommend Wilson Sporting Goods products. A customer purchasing a set of Wilson 1200-GE clubs watches as Golf Pro Bob Hickman demonstrates product features.

Corporate Responsibility

Our primary responsibility is to maximize the return over time for shareholders. This goal cannot be achieved without attention to our impact on society and to the vitality of society itself. Beyond our concerns for producing safe, wholesome, environmentally sound products and treating all of our publics fairly and responsibly, management pursues policies that support and encourage the development of a healthy environment for our businesses.

Reflecting concern for the many communities in which they operate, PepsiCo's divisions and subsidiaries make charitable contributions to United Way, among other health and human service agencies, as well as to local arts and educational institutions. For example, the corporation and its employees at Purchase Headquarters have been recognized for their leadership in per capita and matching corporate contributions to the United Way in the Tri-State Area.

Contributions to regional and national nonprofit organizations from all our divisions are channelled through the PepsiCo Foundation. Although it is impossible for the corporate community to fill the gap created by Federal spending cutbacks, the PepsiCo Foundation is increasing its annual giving in response to President Reagan's challenge for private enterprise to help offset reductions in the Federal budget. No corporation can answer every request. Therefore, the PepsiCo Foundation has concentrated its growing funds in the specific fields of preventive medicine, higher education, and the arts.

Educational grants focus on graduate business schools, economic education, scholarships, and minority programs. Our pledge of $1 million to the United Negro College Fund, for example, reflects our commitment to increase our support for minority education during a period of Federal cutbacks in financial aid.

The corporation encourages its employees to be involved in the world around them. The PepsiCo Foundation's Matching Gifts Program to Education and the Arts matches employees' individual contributions to institutions of their choice.

Employees are also encouraged to participate in the democratic process as individuals and through PepsiCo's political action programs. Divisional groups of EMPAC (Employees Public Affairs Campaign) provide forums for PepsiCo people to learn about and debate public affairs issues.

These activities are only a sampling of the ways in which PepsiCo and its people express their concern for society's well-being and work to enhance it. We believe involvement in these programs represents an indirect but important investment in your corporation's future growth.

Top:* PepsiCo Summerfare, *a major lively arts project of the State University of New York's College at Purchase, has featured the Joffrey Ballet as well as many other professional dance, theatre, and music groups. Entering its third year, this nationally recognized festival, an example of public-private partnership in support of the arts, is held during July and August on the SUNY campus, adjacent to PepsiCo's Sculpture Garden.

Lower: PepsiCo recently awarded the largest corporate program grant ever received by Boys Clubs of America for the development of* SuperFit All-Stars, *a health-related fitness program to be conducted in the 1,000 clubs serving one million young people across the country. This project reflects the company's interest in fitness education and research.

Left: Students at Tuskegee Institute and other historically black colleges will benefit from a PepsiCo Foundation grant to the United Negro College Fund, the largest multi-year corporate donation ever pledged to its campaign. More than half of these young people come from families earning less than $12,000 a year; over 90 percent require financial assistance. The 41 private colleges supported by the Fund enroll some 50,000 students.

Financial Review

Analysis of Operations

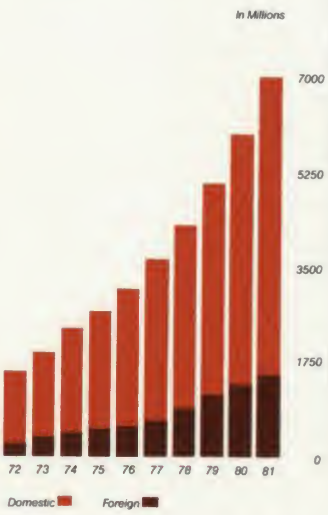
PepsiCo continued its long trend of increasing revenues and net income in 1981. Sales and other operating revenues increased by 18 percent after rising 17 percent in 1980. Gains in unit volumes continue to provide a substantial portion of revenue increases, accounting for approximately 40 percent of the revenue gain in both 1981 and 1980.

Net income for 1981 was a record $333.5 million, a gain of 14 percent following a 10 percent gain in 1980 (before an extraordinary charge—see Note 9 to the Consolidated Financial Statements). In 1981, PepsiCo changed its method of valuing substantially all domestic inventories from either the average cost or the first-in, first-out method to the last-in, first-out (LIFO) method, in order to provide a more appropriate matching of current costs and revenues under inflationary conditions. The change to LIFO reduced 1981 net income by $4.6 million. Excluding the impact of this change, PepsiCo's 1981 net income was $338.1 million, a gain of 16 percent from 1980.

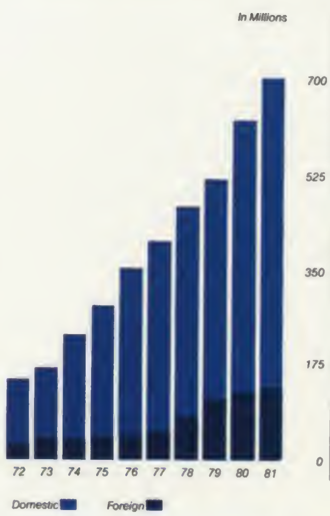
Cost of sales and other operating revenues rose by 14 percent in 1981, compared with a 16 percent increase in 1980. Cost increases in both years continue to reflect the impact of inflation, particularly in foreign economies, and of volume increases. (The impact of inflation is further reviewed under Discussion of the Effects of Inflation below.) Gross profit margins improved in 1981 and 1980, however, because of price increases and productivity gains.

During 1981, PepsiCo continued to spend heavily on marketing programs, particularly in the very competitive soft drink, food products and food service businesses. Marketing, administrative and other expenses in total increased by 23 percent in 1981 and 18 percent in 1980. In particular, advertising and marketing expenses increased by 25 percent in 1981 and 21 percent in 1980.

Domestic and Foreign Revenues



Domestic and Foreign Operating Profits



Foreign currency gains were $20.8 million in 1981, $11.9 million in 1980, and $5.7 million in 1979. The increase in 1981 is generally attributable to the strength of the U.S. dollar against foreign currencies in which PepsiCo is in a net liability position. Foreign currency gains for 1981 were determined under the provisions of Statement of Financial Accounting Standards No. 8. Statement of Accounting Standards No. 52, which was issued late in 1981, requires application of significantly different accounting for foreign currency financial statements by 1983.

Profits before interest and taxes rose 12 percent in 1981 after increasing 20 percent in the previous year. All of PepsiCo's business segments, except Transportation, showed increased profits in 1981, with Food Products and Food Service in particular recording strong growth. In 1980, profits increased in all segments, with Food Products pacing the growth rate.

Interest expense (after deducting interest income) increased by $16.7 million to a total of $98.9 million in 1981. This compares with a $34.6 million increase in 1980. In 1981, the increase was primarily due to higher interest rates. The increase in net interest expense in 1980 was largely due to higher debt levels supporting growth in operations and, to a lesser extent, rising interest rates.

The provision for U.S. and foreign income taxes was 38.8 percent of income before taxes in 1981, 40.8 percent in 1980, and 38.9 percent in 1979. The improved effective tax rate in 1981 reflects a higher proportion of earnings from foreign operations taxed at rates lower than the U.S. rate. The increase in tax rate in 1980 was primarily due to losses sustained in certain development markets overseas for which PepsiCo received no current tax benefit.

PepsiCo's return on assets employed rose to 15.2 percent in 1981 from 14.7 percent in 1980 (before the extraordinary charge) after declining from 15.3 percent in 1979. The 1981 improvement reflects management's emphasis on improving asset utilization during the year, following a relatively high level of capital spending in 1980. Return on average shareholders' equity remained at 1980's high level of 21.7 percent following 1979's record 21.8 percent.

Beverage

Revenues for combined domestic and foreign beverage operations grew 17 percent in 1981, after rising 18 percent in 1980. The revenue growth reflects both volume gains and price increases. Domestic bottlers' case sales continued to outpace the market, rising by six percent, compared with four percent growth in 1980. Overseas case sales rose two and a half percent, as compared to eight percent growth in 1980, reflecting difficult economic conditions and slow-growing markets in many countries.

Costs and operating expenses for the Beverage segment as a whole increased by 19 percent in both 1981 and 1980. Cost increases in both years reflect higher distribution costs, and heavy expenditures on marketing programs in this intensely competitive business.

Operating profits rose by three percent in 1981, and eight percent in 1980. Domestic profits, which provide the major portion of beverage earnings, grew substantially in 1981, following somewhat slower growth in 1980. Domestic results in 1981 were aided by volume gains, lower sweetener costs and price increases. On the

other hand, foreign beverage profits declined in 1981, particularly during the fourth quarter. PepsiCo continued heavy spending on overseas marketing programs designed to stimulate volume growth, in spite of generally weak market conditions and inflationary pressures on operating expenses. Inability to obtain required government permission to raise prices in several markets experiencing high rates of inflation, particularly Mexico, also had an unfavorable impact in 1981.

Food Products

Food Products revenues were up 19 percent in 1981, following a 21 percent increase in 1980. Strong growth in unit volume remained a major factor in both domestic and foreign operations. Domestic volume rose six percent, following a 14 percent gain in 1980, which reflected the introduction of several new products. Overseas volume increased by 16 percent in 1981 and 11 percent in 1980. Operating profits for the Food Products segment grew by 21 percent in 1981 compared with 26 percent in 1980. Higher volume and price increases contributed to improved profits in both domestic and foreign operations in both 1981 and 1980. Performance in Mexico has been particularly strong, with major gains in both volume and profitability.

Food Service

The Food Service segment showed major gains during 1981. Revenues rose by 23 percent, following a 17 percent increase in 1980. This growth reflects successful efforts to increase average store sales, which were up 18 percent in 1981 compared with nine percent in 1980. Average real volume per store grew by seven percent in 1981, compared with one percent in 1980. Pizza Hut paced the segment's performance, with significant real growth in average store sales. An increase in the number of company-owned Taco Bell restaurants also contributed to revenue growth as the number of stores rose by 12 percent in 1981. Operating profits for the segment grew at a faster rate than revenues, rising by 38 percent in 1981 and 19 percent in 1980. Improved profits at Pizza Hut and Taco Bell were due to volume and price increases, as well as favorable ingredient costs.

Transportation

PepsiCo's Transportation segment revenues increased by 11 percent in 1981 and 17 percent in 1980. Operating profits, which had more than doubled in 1980 (before an extraordinary charge), declined by four percent in 1981, as the industry was impacted by generally unfavorable economic and competitive conditions. Nevertheless, North American Van Lines was able to record gains in volume and revenue in all segments of its business, and reported improved profits for both years. Lee Way Motor Freight, however, was adversely affected throughout 1981 by worsening economic conditions, unfavorable volume mix, and heavy price discounting in the industry. Although Lee Way recorded a volume increase, it operated at a loss during 1981, compared with a breakeven performance in 1980.

Sporting Goods

Revenues for the Sporting Goods segment surged by 20 percent in 1981, following a two percent decline in 1980. Volume gains provided about two-thirds of the revenue increase in 1981, reflecting Wilson's emphasis on real growth following a period of pruning marginally profitable product lines. Operating profits grew by 28 percent in 1981, after more than tripling in 1980 from a small base the year before. Volume gains, price increases and tight operating cost controls across all product lines contributed to the profit gain.

In 1981, profits from total PepsiCo domestic operations grew faster than those from overseas segments, continuing 1980's pattern. Domestic operating profits rose by 17 percent in 1981, while foreign operating profits increased by one percent, reflecting the decline in overseas soft drink profits.

Capital Spending

PepsiCo's expenditures for plant and equipment (including capital leases) declined slightly to $412 million in 1981, following a record $446 million in 1980, and $387 million in 1979. This year's decline reflected both the completion of several major spending programs and greater emphasis on asset management and productivity. However, the level of capital spending is expected to increase in 1982 as the company continues to invest for future growth. As in previous years, much of the 1981 spending was devoted to increasing capacity and improving distribution capabilities in beverages and food products. Overseas, PepsiCo made significant additions to capacity at company-owned bottlers in the important markets of the Philippines and Japan. Volume growth in foreign markets continues to require substantial investments in returnable bottles and cases, although net purchases of these assets declined in 1981 to $79 million, compared with $137 million in 1980 and $63 million in 1979. Domestic company-owned bottling operations were strengthened by investments in capacity, and marketing and transportation equipment. Similarly, Frito-Lay continued its program of upgrading and expanding facilities to meet ongoing volume growth. Expansion and remodeling of Taco Bell restaurants was another important 1981 spending program. In 1982, PepsiCo expects to continue this expansion and remodeling program at both Taco Bell and Pizza Hut.

Business Segments

Revenues (in millions)	1981		1980		1979	
	$	%	$	%	$	%
Beverage	2,772.4	40	2,367.7	40	2,013.7	40
Food products	2,177.9	31	1,830.7	31	1,518.5	30
Food service	1,069.8	15	872.7	14	748.3	15
Transportation[1]	725.9	10	655.1	11	559.6	11
Sporting goods	277.3	4	230.2	4	234.7	4
Total[1]	7,023.3	100	5,956.4	100	5,074.8	100
Foreign portion	1,594.6	23	1,335.2	22	1,161.9	23
Operating Profits (in millions)[2]						
Beverage	281.9[3]	40	274.7	44	254.0	49
Food products	298.5[3]	42	245.8	39	195.4	38
Food service	81.9	11	59.5	10	49.9	9
Transportation[1]	32.4	5	33.9[4]	5	14.0	3
Sporting goods	14.0[3]	2	10.9	2	3.4	1
Total[1]	708.7[3]	100	624.8	100	516.7	100
Foreign portion	133.5	19	131.8	21	116.7	23

Investment (in millions)

	Identifiable Assets			Depreciation and Amortization Expense			Capital Expenditures[6]		
	1981	1980	1979	1981	1980	1979	1981	1980	1979
	$	$	$	$	$	$	$	$	$
Beverage	1,355.2	1,266.0	958.6	70.4	56.3	45.9	126.6	140.4	100.9
Food products	945.3	791.9	640.1	62.0	49.4	37.0	141.9	176.1	159.5
Food service	567.1	520.4	474.0	38.5	34.8	29.8	87.8	83.4	71.5
Transportation	284.5	292.3	292.4	22.2	21.5[4]	20.0	38.2	32.7	37.2
Sporting goods	261.3	229.5	236.2	5.2	4.9	5.0	9.5	4.1	4.5
Corporate	643.7[5]	317.4[5]	286.3[5]	5.6	5.3	4.4	7.6	9.0	13.3
Total	4,057.1	3,417.5	2,887.6	203.9	172.2	142.1	411.6	445.7	386.9
Foreign portion	1,248.4	1,055.6	792.0	48.0	36.4	27.9	111.3	119.6	78.2

[1] Excludes the results of PepsiCo Building Systems, which was sold in the second quarter of 1981.

[2] Excludes general corporate expenses and interest expense (net) which totaled as follows (in millions); 1981, $164.2; 1980, $132.0; 1979, $83.6.

[3] The change to LIFO in 1981 reduced beverage and food products operating profits by $3.5 million and $5.0 million, respectively. There was no significant effect on sporting goods. Excluding the effects of LIFO, operating profits for beverage and food products were $285.4 million and $303.5 million, respectively, and total operating profits were $717.2 million.

[4] Excludes a $17.8 million extraordinary charge related to write-off of operating rights (see Note 9 to Consolidated Financial Statements).

[5] Corporate assets are principally marketable securities, investment in tax leases and administrative office buildings.

[6] Excludes expenditures for returnable bottles and cases.

Liquidity, Financial Resources and Capital Structure

In addition to long-term profit growth, PepsiCo continues to emphasize, as a key objective, high levels of return on assets. Management seeks to achieve this objective by appropriate allocation of financial resources to businesses and to projects which meet the company's return criteria. Complementing this objective, PepsiCo's capital structure and the use and maturity mix of external funds are prudently managed to retain financing flexibility and minimize long-term financing costs, consistent with the maintenance of the company's strong financial position.

PepsiCo has benefited from steady growth in funds generated by operations. Working capital provided by operations has increased at an average rate of 17 percent over the past five years. In 1981, operations provided $580 million to working capital, up 19 percent from $488 million in 1980, and $445 million in 1979. After taking into account the effect of further changes in the components of operating working capital, total cash provided by operations was $544 million in 1981, compared with $483 million in 1980 and $459 million in 1979.

Internally generated funds were sufficient to cover capital spending and dividends paid to stockholders in 1981. PepsiCo supplemented its internal sources of cash with net additional borrowings of $257 million in 1981, primarily related to the investment in tax leases. During the last quarter of 1981, PepsiCo purchased accelerated depreciation deductions and tax credits from other companies under the Economic Recovery Tax Act of 1981. PepsiCo's investment in these transactions of $367 million was funded primarily with commercial paper. After related tax benefits realized in 1981, the net investment aggregated $291 million at year-end. By year-end 1982, this amount will be substantially liquidated through receipt of tax refunds and realization of other current tax benefits during the year. While these transactions necessarily impact PepsiCo's reported capitalization and coverage ratios, their favorable financial terms make them a low-cost source of funds that will generate substantial cash inflows through reduced tax payments during the next several years.

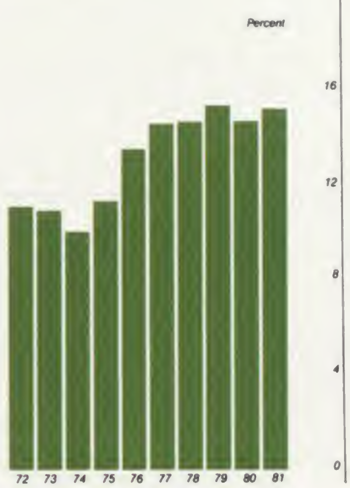
Given the continued uncertainty and volatility in the financial markets, PepsiCo intends to continue to reduce its exposure to fluctuations in short-term interest rates by undertaking long-term financing as favorable market opportunities develop. Several long-term refinancings at favorable rates were concluded during the year. These borrowings included $75 million of eight percent, 15-year convertible subordinated debentures and $75 million face amount of three-year zero coupon guaranteed notes at an effective rate of 14.29 percent, which generated additional net proceeds of approximately $50 million.

As a result of the external debt needed to finance the purchase of tax leases, PepsiCo's ratio of debt to capital employed increased to 38.2 percent in 1981 from 35.6 percent in 1980 and 32.9 percent in 1979. (Excluding the temporary financing for tax leases, 1981's ratio would have declined to 31.7 percent.) The increase between 1979 and 1980 reflects a higher proportion of external debt to finance last year's extensive capital spending program. Although the level of capital spending is expected to increase in 1982, it will be financed, as in the past, primarily through funds from operations.

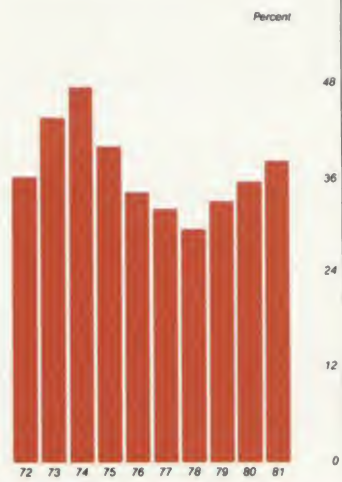
In summary, the primary base of PepsiCo's financial flexibility is the stability and growth of funds from operations. PepsiCo maintains a strong credit standing and has access to a full range of world capital markets. The company maintains substantial unused bank credit facilities, and also has sizable investments in marketable securities in Puerto Rico that can be repatriated at PepsiCo's discretion upon payment of a modest tollgate tax. Taken together, these additional sources of funds provide management with a variety of options for financing PepsiCo's future growth.

	1981	1980
	(in thousands)	
Short-term borrowings—domestic	$ 241,279	$ 31,670
—foreign	84,502	72,534
Total short-term borrowings	325,781	104,204
Long-term borrowings—current	6,886	6,290
—non-current		
—senior	581,277	612,720
—subordinated	80,803	8,843
Total long-term borrowings	668,966	627,853
Total borrowings	994,747	732,057
Capital lease obligations		
—current	9,210	8,650
—non-current	153,992	160,146
Total capital lease obligations	163,202	168,796
Total debt (including capital lease obligations)	1,157,949	900,853
Shareholders' equity	1,640,304	1,428,923
Total debt and shareholders' equity	2,798,253	2,329,776
Deferred income taxes and other liabilities and deferred credits	232,274	201,643
Total capital employed	$3,030,527	$2,531,419

Return on Assets Employed



Total Debt as a Percent of Capital Employed



Discussion of the Effects of Inflation

Although slowing modestly in the current year, the high rates of inflation that have significantly affected the American economy over the past decade continue to erode the purchasing power of the dollar, distorting the conventional measures of financial performance based on historical cost accounting. To assist readers of financial statements in assessing the impact of inflation, the Financial Accounting Standards Board (FASB) issued Statement No. 33, Financial Reporting and Changing Prices, which requires the presentation of certain information on the effects of inflation on business enterprises under two different methods: constant dollar and current cost.

The constant dollar method is intended to measure the impact of general inflation on PepsiCo's operations. The restated amounts are referred to as constant dollar amounts since the conventional measures of earnings and capital, which are expressed in dollars of varying purchasing power (historical dollars), have been restated into dollars of the same purchasing power using the Consumer Price Index for All Urban Consumers (CPI-U).

The current cost method attempts to measure the effects of changes in the specific costs of PepsiCo's assets from the dates they were acquired to the present. Several methods were used in estimating these amounts, including direct pricing and indexing, which are intended to reflect costs to replace existing assets with identical assets rather than with different or technologically improved assets. Current costs differ from constant dollar amounts to the extent that the specific costs of PepsiCo's inventories and property, plant and equipment have increased more or less rapidly than general inflation.

The accompanying statement of earnings and five-year summary of selected data reflect certain adjustments to the amounts shown in the primary financial statements using both the constant dollar and current cost methods. Since both methods involve the use of assumptions, approximations, and estimates, readers are cautioned that the following information should not be viewed as precise indicators of the effects of inflation on PepsiCo's operations.

Under the guidelines of Statement No. 33, only cost of sales and depreciation expense are required to be adjusted in the statement of earnings, since these are the items of income which are most affected by inflation. During inflationary periods, these adjustments will usually result in lower earnings than reported in the primary financial statements.

The lower cost of sales amount on a current cost basis, compared to constant dollar, reflects the fact that the rate of inflation in 1981, as measured by the CPI-U, outpaced the increase in the specific costs of PepsiCo's inventories, continuing the trend of the past two years. In other words, for the average two-month period between the time PepsiCo produces and the time it sells its inventories, the increase in cost to replace those inventories has been less than the increase in general inflation. Historical cost of sales more closely approximates cost of sales on a current cost basis in 1981 than in prior years due to this year's change to the LIFO method of inventory accounting for substantially all domestic inventories, which causes more recently purchased and, in an inflationary period, higher cost inventory to be charged to cost of sales.

Although the adoption of LIFO accounting and productivity improvements have helped offset the inflationary impact of higher inventory costs on the primary financial statements, it should be noted that the ability of a company to recover cost increases by raising selling prices is subject to normal competitive factors and regulatory conditions.

Unlike inventories, the increase in the current cost of PepsiCo's fixed assets since the time of acquisition, which extends over several years, has been greater than the increase in general inflation as measured by the CPI-U. Consequently, depreciation on a current cost basis has exceeded the same amount on a constant dollar basis. In 1981, the increase in depreciation on a current cost versus constant dollar basis partially offsets the comparative decrease in cost of sales, but not to the extent that it had in the prior two years, with the result that income under current cost is higher than under constant dollar. In 1980 and 1979, depreciation expense on a current cost basis exceeded the same amount on a constant dollar basis by an amount sufficient to fully offset the comparative decrease in cost of sales, causing income under current cost to be lower than under constant dollar.

In accordance with Statement No. 33, restated net income does not reflect an adjustment to historical dollar income tax expense, because present tax laws do not allow deductions for increased depreciation expense and cost of sales due to inflation. Consequently, the effective tax rate on both the constant dollar and current cost basis is higher than on an historical cost basis, at 46.7 percent and 46.4 percent, respectively, versus the historical effective rate of 38.8 percent.

Besides the impact of inflation on the conventional measures of net income, inflation affects monetary assets and liabilities, such as cash, receivables and payables. During periods of inflation, monetary assets lose purchasing power since they will buy fewer goods or services as the general level of prices rises. Conversely, holders of monetary liabilities benefit during inflation because cheaper dollars are used to satisfy these obligations in the future.

Since PepsiCo had net monetary liabilities during the year, a net gain in purchasing power is disclosed in the adjusted statement of earnings under both the constant dollar and current cost methods.

This gain, which amounted to $89,590,000 in 1981, $111,453,000 in 1980 and $99,306,000 in 1979 (stated in average 1981 dollars), should be viewed as part of the overall impact of inflation on operations. Since the interest rate charged by lenders is intended, in part, to compensate them for lost purchasing power during inflation, historical dollar interest expense should theoretically be reduced by the purchasing power gain from holding net monetary liabilities. However, the FASB requires that this gain be shown separately from net income in the statement of earnings.

Statement No. 33 also requires that increases in current costs based on specific prices of inventories and property, plant and equipment during the year be compared with the amount of such increases based on changes in the general price level. Over the past year, the rate of general inflation, as measured by the CPI-U has increased at a faster pace than the specific prices of PepsiCo's assets, resulting in a net decrease in the current costs of our assets after inflation in 1981, continuing the pattern of the prior two years. This is not surprising, considering that the CPI-U reflects such items as housing and fuel—the costs of which have increased dramatically in recent years.

In addition to the statement of earnings, various financial data for the past five years have been restated into average 1981 dollars and are presented in a separate schedule. The schedule shows that in "real" terms (i.e., after removing the effects of inflation) both sales and cash dividends per share have increased steadily each year since 1977.

Net income adjusted into average 1981 dollars shows an increase from 1980 to 1981 under both the constant dollar and current cost methods. This is because 1980 results have been restated using the general inflation rate of 10.4 percent in 1981, whereas the year-to-year increases in net income before restatement, were 13.0 percent under the constant dollar method and 23.9 percent under the current cost method. However, net income adjusted into average 1981 dollars, declined from 1979 to 1980 under both the constant dollar and current cost methods, despite the increases reflected in the primary statement of earnings. This is because 1979 results were initially restated into 1980 average dollars using the general inflation rate of 13.5 percent for 1980, whereas the 1979 to 1980 increases in net income before restatement, were 6.1 percent under the constant dollar method and 9.6 percent under the current cost method.

The value of PepsiCo's net assets on both a constant dollar and current cost basis is considerably higher than the historical dollar amount primarily due to the inflationary impact on property, plant and equipment. The current cost amount of net assets is higher than the corresponding amount in constant dollars, principally because the prices of PepsiCo's fixed assets have increased at a faster rate than general inflation during the period since acquisition, though the last three years have seen a reversal in that trend.

Between year-end 1977 and year-end 1981, the actual market price of PepsiCo's common stock increased. During the same period, the market price per share, adjusted for inflation decreased, although year-to-year changes were volatile, moving in both directions. Considering the many influences on the stock market, it is difficult to evaluate the meaningfulness of this information.

Statement of Earnings
Adjusted for the Effects of Inflation
For the Year Ended December 26, 1981

(in thousands except per share amounts)

	1981		
	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales and other operating revenues	$7,027,443	$7,027,443	$7,027,443
Cost of sales, excluding depreciation	2,767,617	2,794,080	2,781,112
Depreciation and amortization	198,635	264,445	274,524
Other operating expenses, net	3,417,854	3,417,854	3,417,854
Net interest expense	98,854	98,854	98,854
Provision for income taxes	211,027	211,027	211,027
	6,693,987	6,786,260	6,783,371
Net income	$ 333,456	$ 241,183	$ 244,072
Per common share	$ 3.61	$ 2.62	$ 2.65
Purchasing power gain on net monetary liabilities		$ 89,590	$ 89,590
Effect of increase in general price level on inventories and property, plant and equipment during the year			$ 237,153
Increase in specific prices (current costs)[1]			105,679
Excess of increase in general price level over increase in specific prices			$ 131,474

[1] At December 26, 1981, current cost of inventory was $453,905, and current cost of property, plant and equipment, net of accumulated depreciation, was $2,667,086.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation

(in thousands of average 1981 dollars except per share amounts)

	1981	1980	1979	1978	1977
Net sales and other operating revenues	$7,027,443	$6,595,018	$6,378,431	$5,994,483	$5,476,954
Constant Dollar Information:					
Net income[1]	$ 241,183	$ 235,478	$ 252,045		
Per common share[1]	$ 2.62	$ 2.58	$ 2.72		
Net assets	$2,209,891	$2,053,527	$1,984,676		
Current Cost Information:					
Net income[1]	$ 244,072	$ 217,359	$ 225,131		
Per common share[1]	$ 2.65	$ 2.38	$ 2.43		
Excess of increase in general price level over increase in specific prices	$ 131,474	$ 103,167	$ 70,226		
Net assets	$2,354,192	$2,309,329	$2,294,164		
Other Information:					
Purchasing power gain on net monetary liabilities	$ 89,590	$ 111,453	$ 99,306		
Cash dividends declared per common share	$ 1.420	$ 1.391	$ 1.385	$ 1.359	$ 1.238
Market price per common share at year-end	$ 35.20	$ 27.41	$ 29.62	$ 34.24	$ 40.98
Average consumer price index (1967=100)	272.4	246.8	217.4	195.4	181.5

[1] Before extraordinary charge of $17,762 (19 cents per share) in 1980.

Quarterly Financial Data and Information on Capital Stock

Summarized quarterly financial data (in thousands except per share amounts) for 1981 and 1980 are as follows:

	1981 Quarters Ended				
	March 21 (12 Weeks)	June 13 (12 Weeks)	Sept. 5 (12 Weeks)	Dec. 26 (16 Weeks)	Total
Net sales and other operating revenues	$1,467,417	$1,650,310	$1,743,019	$2,166,697	$7,027,443
Gross profit[1]	750,191	829,882	883,243	1,122,087	3,585,403
Net income[1]	52,808	87,504	101,742	91,402	333,456
Net income per share[1]	.58	.95	1.09	.99	3.61

[1] Previously reported amounts for the first three quarters of 1981 have been restated to reflect PepsiCo's change to the last-in, first-out method of inventory valuation for substantially all domestic inventories which was adopted in the fourth quarter of 1981. The effect on the first three quarters was not material.

	1980 Quarters Ended				
	March 22 (12 Weeks)	June 14 (12 Weeks)	Sept. 6 (12 Weeks)	Dec. 27 (16 Weeks)	Total
Net sales and other operating revenues	$1,183,042	$1,381,372	$1,518,430	$1,892,376	$5,975,220
Gross profit	591,088	693,280	749,397	934,949	2,968,714
Net income	47,596	77,498	88,507	78,151[2]	291,752[2]
Net income per share	.52	.85	.97	.86[2]	3.20[2]

[2] Before extraordinary charge of $17,762 (19 cents per share).

Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges. The range of market prices for PepsiCo stock, as reported by the New York Stock Exchange, and the dividends declared in each quarter of the last two years are set forth in the table below. The quarterly dividend was increased 12.3% in May 1981 from 32½ cents per share to 36½ cents per share, following an increase in 1980 of 14% that raised the per share dividend from 28½ cents to 32½ cents. As of February 19, 1982 the approximate number of holders of record of Capital Stock was 49,000.

Quarter	High	Low	Close	Dividend
1981				
1st Quarter	35⅝	26	35⅛	32½¢
2nd Quarter	37⅝	32½	37⅛	36½¢
3rd Quarter	37⅜	31¼	31¾	36½¢
4th Quarter	39¼	29⅞	36⅜	36½¢
1980				
1st Quarter	25⅝	20	21⅛	28½¢
2nd Quarter	26⅜	20	25¼	32½¢
3rd Quarter	28½	23¾	26⅛	32½¢
4th Quarter	26⅞	24	26	32½¢

Consolidated Statement of Income and Retained Earnings

(in thousands except per share amounts)
PepsiCo, Inc. and Subsidiaries
Years ended December 26, 1981, December 27, 1980 and December 29, 1979

	1981	1980	1979
Revenues			
Net sales	**$6,249,979**	$5,271,598	$4,488,032
Other operating revenues	**777,464**	703,622	602,535
	7,027,443	5,975,220	5,090,567
Costs and Expenses			
Cost of sales	**2,838,492**	2,461,087	2,113,592
Cost of other operating revenues	**603,548**	545,419	474,129
Marketing, administrative and other expenses	**2,942,066**	2,393,683	2,022,115
Interest expense	**143,684**	114,149	73,121
Interest income	**(44,830)**	(31,951)	(25,520)
	6,482,960	5,482,387	4,657,437
	544,483	492,833	433,130
Provision for United States and foreign income taxes (including deferred: 1981–$22,400; 1980–$22,800; 1979–$25,800)	**211,027**	201,081	168,275
Income Before Extraordinary Charge	**333,456**	291,752	264,855
Extraordinary Charge			
Write-off of motor carrier operating rights	**–**	17,762	–
Net Income	**333,456**	273,990	264,855
Retained earnings at beginning of year	**1,293,164**	1,134,060	971,654
Cash dividends (per share: 1981–$1.42; 1980–$1.26; 1979–$1.105)	**(129,944)**	(114,886)	(102,449)
Retained earnings at end of year	**$1,496,676**	$1,293,164	$1,134,060
Net Income Per Share			
Income before extraordinary charge	**$ 3.61**	$ 3.20	$ 2.85
Extraordinary charge	**–**	.19	–
Net income	**$ 3.61**	$ 3.01	$ 2.85

See accompanying notes

Consolidated Balance Sheet

(in thousands)
PepsiCo, Inc. and Subsidiaries
December 26, 1981 and December 27, 1980

Assets	1981	1980
Current Assets		
Cash	**$ 28,862**	$ 45,430
Marketable securities	**210,107**	186,694
Notes and accounts receivable, less allowance: 1981–$29,410; 1980–$25,697	**744,014**	596,676
Inventories	**442,401**	428,609
Current portion of investment in tax leases	**237,663**	—
Prepaid expenses and other current assets	**110,980**	100,226
	1,774,027	1,357,635
Long-term Receivables and Investments		
Long-term receivables	**51,331**	42,281
Investment in tax leases	**53,630**	—
Other investments	**19,246**	15,218
	124,207	57,499
Property, Plant and Equipment		
Land	**156,348**	127,836
Buildings	**570,074**	495,247
Machinery and equipment	**1,681,605**	1,494,948
Capital leases	**181,253**	187,110
Bottles and cases, net of customers' deposits: 1981–$82,205; 1980–$49,715	**159,766**	171,524
	2,749,046	2,476,665
Less accumulated depreciation and amortization	**843,135**	717,606
	1,905,911	1,759,059
Goodwill	**155,503**	157,356
Other Assets	**97,413**	85,989
	$4,057,061	$3,417,538

See accompanying notes

Liabilities and Shareholders' Equity	1981	1980
Current Liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	**$ 341,877**	$ 119,144
Accounts payable	**474,685**	441,359
United States and foreign income taxes	**50,107**	67,844
Other accrued taxes	**54,097**	41,926
Other current liabilities	**447,645**	334,990
	1,368,411	1,005,263
Long-term Debt	**662,080**	621,563
Capital Lease Obligations	**153,992**	160,146
Other Liabilities and Deferred Credits	**81,374**	67,943
Deferred Income Taxes	**150,900**	133,700
Shareholders' Equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued: 1981—94,916,223; 1980—94,916,223 shares	**4,746**	4,746
Capital in excess of par value	**225,208**	225,915
Retained earnings	**1,496,676**	1,293,164
Less cost of repurchased shares: 1981—3,310,786; 1980—3,639,701	**(86,326)**	(94,902)
	1,640,304	1,428,923
	$4,057,061	$3,417,538

Consolidated Statement of Changes in Financial Position

(in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 26, 1981, December 27, 1980 and December 29, 1979

	1981	1980	1979
Financial Resources Provided			
Operations			
Net income before extraordinary charge	**$ 333,456**	$ 291,752	$ 264,855
Depreciation and amortization	**203,855**	172,209	142,053
Deferred income taxes	**22,400**	22,800	25,800
Other	**19,924**	1,546	12,758
Working capital provided by operations	**579,635**	488,307	445,466
Change in components of operating working capital (except cash and marketable securities)			
Notes and accounts receivable	**(147,338)**	(39,519)	(123,507)
Inventories	**(13,792)**	(58,498)	(15,500)
Prepaid expenses and other current assets	**(8,054)**	(27,417)	(13,531)
Accounts payable	**33,326**	76,834	100,681
Other current liabilities	**96,973**	37,208	66,761
Taxes payable	**3,529**	5,834	(1,021)
	(35,356)	(5,558)	13,883
Cash provided by operations	**544,279**	482,749	459,349
Realized benefit on investment in tax leases	**75,986**	—	—
Property disposals	**30,428**	30,086	17,419
Bottles and cases, net	**11,758**	(103,174)	(26,304)
	662,451	409,661	450,464
Financial Resources Applied			
Plant and equipment	**411,594**	445,712	386,885
Investment in tax leases	**367,279**	—	—
Other	**15,957**	33,014	20,809
	794,830	478,726	407,694
Total before financing	**(132,379)**	(69,065)	42,770
Total Financing			
Additions to long-term debt and capital lease obligations	**183,838**	186,307	189,429
Reductions of long-term debt	**(149,055)**	(23,548)	(51,095)
Notes payable	**222,733**	38,111	23,753
Cash dividends	**(126,161)**	(111,168)	(99,749)
Repurchase of capital stock	**—**	—	(95,092)
Capital stock (including conversion of debt)	**7,869**	6,170	28,676
	139,224	95,872	(4,078)
Increase in Cash and Marketable Securities	**$ 6,845**	$ 26,807	$ 38,692

Note: As of December 26, 1981, PepsiCo changed its presentation of the Consolidated Statement of Changes in Financial Position from an analysis of the change in working capital to an analysis of the change in cash and marketable securities. The 1980 and 1979 Statements have been restated to conform to this presentation.

Notes to Consolidated Financial Statements

Note 1/Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated.

Marketable Securities. Marketable securities are stated at cost which approximates market and include time deposits of $109,797,000 in 1981 and $107,871,000 in 1980.

Inventories. Effective December 28, 1980, PepsiCo changed its method of determining cost for substantially all domestic inventories from either the average or first-in, first-out method to the last-in, first-out (LIFO) method. Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out method) or net realizable value (see Note 2).

Tax Leases. The Investment in Tax Leases represents the unamortized cost of tax leases purchased under the "safe harbor" leasing provisions of the Economic Recovery Tax Act of 1981, plus income accrued on the outstanding investment during the period in which the investment exceeds realized cumulative tax savings. The investment is reduced as tax credits and tax savings from accelerated depreciation deductions equal to the purchase cost are realized. These tax benefits are not included in PepsiCo's tax provision (see Note 6). The remaining unrecovered cost is amortized by an interest method over the periods (comprising most of the lease term) during which the company has the use of additional temporary tax savings. The income accrued effectively offsets the incremental interest costs incurred in connection with the funding of the initial investment and results in no effect on net income in 1981.

The Financial Accounting Standards Board (FASB) is expected to issue a standard on accounting for tax lease transactions in 1982. PepsiCo believes that its method of accounting for these transactions is consistent with the FASB's published views on the subject.

Property, Plant and Equipment. Land, buildings, and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the respective assets.

In accordance with Statement of Financial Accounting Standards No. 34, beginning in 1980 interest costs associated with the construction of new facilities or major expansions are capitalized and amortized over the lives of the related assets. The amount of interest capitalized was $8,965,000 in 1981 and $11,168,000 in 1980, with corresponding reductions in interest expense.

Valuation of returnable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage, less related customers' deposits, is charged to cost of sales. Returnable bottles and cases are adjusted to deposit value within one year of acquisition except for the initial introduction of new soft drink package sizes which are adjusted to deposit value over four years. In foreign operations, returnable bottles and cases and the related customers' deposits are translated into U.S. dollars at current rates of exchange.

Goodwill. Goodwill represents the excess of cost over net tangible assets of companies acquired and trademarks. Approximately $60 million, relating to acquisitions made prior to November 1,1970, is not amortized unless there is an impairment of value. The remaining $96 million is amortized over appropriate periods not exceeding 40 years. Amortization was $4,081,000 in 1981, $4,363,000 in 1980 and $3,887,000 in 1979.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are substantially expensed by the end of the year in which the cost is incurred.

Foreign CurrencyTranslation. PepsiCo's overseas operations are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." In December 1981, the FASB issued a new standard on foreign currency translation which must be adopted by 1983.

Income Taxes. Deferred income taxes arise from the deferral of investment tax credits, which are amortized over the estimated useful lives of the related assets, and from timing differences between financial and tax reporting, principally depreciation.

Taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the U.S. have been reinvested indefinitely in foreign operations. Accordingly, no provision has been made for additional taxes, not material in amount, that might be payable with respect to such earnings in the event of remittance.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal years 1981, 1980 and 1979 ended on December 26, December 27 and December 29, respectively.

Net Income Per Share. Net income per share is computed by dividing net income (adjusted for interest expense related to convertible debentures) by the average number of common shares and common share equivalents outstanding during each year. The conversion of all convertible debentures would not result in a material dilution.

Business Segments. Information related to revenues, operating profits, identifiable assets, depreciation and amortization expense and capital expenditures for PepsiCo's business segments is presented on page 40.

Audit Committee of the Board of Directors. The Audit Committee of the Board, composed entirely of outside directors, meets on a regular basis with PepsiCo's financial management, internal auditors, and independent accountants to review internal and external audit plans, activities, and recommendations, as well as PepsiCo's financial controls.

Note 2/Inventories

Inventories at December 26, 1981 and December 27, 1980 are summarized as follows:

	1981	1980
	(in thousands)	
Finished goods	$171,060	$164,957
Raw materials, supplies and in-process	254,642	252,026
Equipment held for resale	25,844	11,626
Total (approximates current cost)	451,546	428,609
Excess of current cost over LIFO cost	(9,145)	–
	$442,401	$428,609

Effective December 28, 1980, PepsiCo adopted the last-in, first-out (LIFO) method of determining costs for substantially all domestic inventories in order to provide a more appropriate matching of current costs with revenues under inflationary conditions. Inventories valued at LIFO comprised 52% of inventories at December 26, 1981.

The change to LIFO had the effect of reducing 1981 net income by $4,588,000 or five cents per share.

Note 3/Notes Payable and Long-term Debt

Notes payable at December 26, 1981 and December 27, 1980 comprised the following:

	1981	1980
	(in thousands)	
Current maturities on long-term debt and capital lease obligations	$ 16,096	$ 14,940
Other notes payable	325,781	104,204
	$341,877	$119,144

At December 26, 1981 and December 27, 1980, long-term debt (less current maturities) consisted of:

	1981	1980
	(in thousands)	
Commercial paper, bank loans and notes (1981–12¼%; 1980–15¾%)	$ 80,000	$210,000
10⅛% notes due 1986	150,000	150,000
9¼% notes due 1984	100,000	100,000
8¼% notes due 1985	100,000	100,000
8% convertible subordinated debentures due 1996	75,000	–
Zero coupon guaranteed notes due 1984 (14.29% semiannual yield to maturity)	53,163	–
Other	103,917	61,563
Total long-term debt	$662,080	$621,563

At December 26, 1981 PepsiCo had revolving credit agreements with a group of commercial banks, providing for loans up to a maximum of $435 million. Such agreements cover loans up to $230 million maturing January 2, 1985 and up to $205 million maturing January 2, 1987. These facilities support the classification of commercial paper and bank loans as long-term debt.

The amounts of long-term debt maturing after 1982 are as follows: 1983, $4,953,000; 1984, $172,266,000; 1985, $102,700,000; 1986, $152,761,000; and subsequently, $229,400,000.

At December 26, 1981, $251 million of unused facilities ($180 million of which were lines of credit with U.S. banks) were also available for use by PepsiCo.

The debt agreements to which PepsiCo is a party include various restrictions, none of which is currently significant to PepsiCo.

Note 4/Capital Stock and Capital in Excess of Par Value

The changes in capital stock and capital in excess of par value are summarized below:

	Capital Stock		Capital in Excess of	Repurchased
	Shares	Amount	Par Value	Shares
		(dollars in thousands)		
Balance at December 30, 1978	93,075,103	$4,654	$191,351	–
Conversion of debentures and notes	1,220,364	61	25,774	–
Exercise of stock options and warrants	305,747	15	2,826	–
Shares repurchased	(3,647,000)	–	–	$(95,092)
Balance at December 29, 1979	90,954,214	4,730	219,951	(95,092)
Conversion of debentures and other	190,800	9	3,864	190
Exercise of stock options	131,508	7	2,100	–
Balance at December 27, 1980	91,276,522	4,746	225,915	(94,902)
Conversion of debentures and other	160,827	–	(438)	4,193
Exercise of stock options	168,088	–	(269)	4,383
Balance outstanding at December 26, 1981	91,605,437	$4,746	$225,208	$(86,326)

Shares reserved at December 26, 1981 were as follows:

Incentive plan	4,074,688
Stock option plans	506,042
Convertible subordinated debentures (primarily at $38 per share)	2,055,135
	6,635,865

Under PepsiCo's stock option plans, during 1981 options for 168,088 shares were exercised at prices ranging from $12.67 to $28.88 per share. Options for 131,508 and 142,997 shares were exercised in 1980 and 1979, respectively, at prices ranging from $2.89 to $24.63 in both years.

At December 26, 1981 and December 27, 1980, there were outstanding options for the purchase of 689,924 and 1,323,184 shares, respectively, at prices ranging from $12.67 to $28.88. At December 26, 1981, options for 96,942 shares were exercisable. In 1981, 57,829 options were cancelled and no additional options were granted.

In 1981, stock appreciation rights ("SAR's") were granted with respect to certain stock options. Each SAR entitles an optionee to receive, in cash or shares of PepsiCo capital stock (as determined by the Compensation Committee of PepsiCo's Board of Directors), the excess, if any, of the fair market value of a share of capital stock on the date the SAR is exercised, less the option exercise price. Options are automatically cancelled upon exercise of the related SAR. SAR's expire on the same dates as the related options. During 1981, 406,587 SAR's were granted. At December 26, 1981, 378,059 SAR's were outstanding and became exercisable as of January 1, 1982.

In 1979, PepsiCo shareholders approved the 1979 Incentive Plan which carried forward the principal features of the 1972 Performance Share Plan and replaced the 1975 Stock Option Plan with an incentive stock unit program. Under the 1979 Plan the Compensation Committee of the Board of Directors may award performance shares (each unit being limited to the market value of a share of PepsiCo capital stock on date of grant), and an equal number of stock options to purchase capital stock to senior management employees, and may award incentive stock units, rather than options to other management employees. Performance shares are not paid unless PepsiCo achieves stated cumulative growth rates in earnings per share over the four-year period following the award. Incentive stock units are rights to receive shares of capital stock or their value, which vest over a period of time, without payment of any amounts to PepsiCo or satisfaction of any performance objectives.

Payments for performance share units, incentive stock units and SAR's may be made in cash or in capital stock, or a combination thereof, as the committee decides. The aggregate number of shares of capital stock which may be delivered or purchased under the Plan may not exceed 4,600,000 shares. During 1980 and 1978, performance share units were awarded, of which 905,004 were outstanding at December 26, 1981. From 1979 to 1981, incentive stock units were awarded of which 242,141 were outstanding at December 26, 1981. The cost of awards under the 1972 Performance Share Plan and the 1979 Incentive Plan is being charged to income ($10,452,000 in 1981, $8,787,000 in 1980 and $5,220,000 in 1979) over the applicable term of the award period.

Note 5/Leases and Commitments

PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2021 and 2014, respectively. Following is an analysis of leased property under capital leases by major classes at December 26, 1981 and December 27, 1980.

	1981	1980
	(in thousands)	
Buildings	$172,738	$177,944
Machinery and equipment	8,515	9,166
	181,253	187,110
Less accumulated amortization	68,606	64,398
	$112,647	$122,712

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1982	$ 26,696	$ 46,323	$ (4,275)	$ (5,290)
1983	25,445	40,988	(4,335)	(5,171)
1984	24,032	35,011	(4,366)	(5,056)
1985	22,774	30,991	(4,393)	(4,873)
1986	22,436	27,991	(4,353)	(4,547)
Later years	199,226	160,155	(37,565)	(34,336)
Total minimum lease commitments (receivables)	$320,609	$341,459	$(59,287)	$(59,273)

The present value of minimum lease payments for capital leases amounts to $163,200,000 after deducting $4,834,000 for estimated executory costs (taxes, maintenance and insurance) and $152,575,000 representing imputed interest. The present value of minimum sublease receivables amounts to $27,271,000 after deducting $31,504,000 of unearned income. Total rental expense for all operating leases for years ended December 26, 1981, December 27, 1980 and December 29, 1979 was $91,863,000, $76,208,000 and $57,549,000, respectively. Total rental income from all operating subleases for years ended December 26, 1981, December 27, 1980 and December 29, 1979 was $8,789,000, $6,693,000 and $5,953,000, respectively.

At December 26, 1981, PepsiCo and its subsidiaries were contingently liable under direct and indirect guarantees aggregating $77,000,000.

Note 6/Income Taxes

The provision for U.S. federal and foreign income taxes is comprised of the following:

	1981	1980	1979
		(in thousands)	
Current:			
U.S.	$147,403	$132,947	$107,673
Foreign	41,224	45,334	34,802
Deferred (principally U.S.)	22,400	22,800	25,800
	$211,027	$201,081	$168,275

The provision for U.S. federal income taxes excludes tax benefits in 1981 of $225,698,000 from tax lease transactions (see Note 1). Of this amount, $149,712,000 represents an income tax refund due in 1982 which is included in Current Portion of Investment in Tax Leases.

U.S. and foreign income before federal and foreign income taxes and the extraordinary charge were as follows:

	1981	1980	1979
		(in thousands)	
U.S.	$388,160	$359,275	$306,216
Foreign	156,323	133,558	126,914
Total	$544,483	$492,833	$433,130

The differences between the effective and statutory U.S. federal income tax rates are comprised of the following:

	1981	1980	1979
U.S. statutory rate	46.0%	46.0%	46.0%
Effect of earnings of foreign operations taxed at an aggregate rate less than the statutory U.S. rate	(5.0)	(3.0)	(5.3)
Other—net	(2.2)	(2.2)	(1.8)
	38.8%	40.8%	38.9%

The lower effective rates result principally because a substantial portion of the earnings of subsidiaries operating in Puerto Rico and Ireland is taxable at nominal rates.

Deferred income tax expense arises from the following items:

	1981	1980	1979
		(in thousands)	
Excess of tax over financial statement expense related to depreciable assets (including capital leases)	$23,800	$23,500	$17,600
Deferral of investment tax credit benefits	4,000	9,500	8,400
Other—net	(5,400)	(10,200)	(200)
	$22,400	$22,800	$25,800

U.S. and foreign income taxes payable consists of the following:

	1981	1980
	(in thousands)	
U.S.	$23,590	$37,744
Foreign	26,517	30,100
	$50,107	$67,844

Deferred income taxes payable include:

	1981	1980
	(in thousands)	
Deferred income taxes	$ 95,900	$ 80,600
Deferred investment tax credits	55,000	53,100
	$150,900	$133,700

In August 1981, the Internal Revenue Service issued a 30 Day Letter to PepsiCo proposing income tax deficiencies of $55,000,000 for the years 1973 through 1976 relating to a reallocation to the U.S. parent company of a portion of the income of subsidiaries operating primarily in Puerto Rico and Ireland under tax incentive grants. PepsiCo intends to vigorously contest the proposed deficiencies. After consultation with outside tax counsel, management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial position of the Company.

In 1981, PepsiCo recognized tax benefits of $8,000,000 that became available under the Economic Recovery Tax Act of 1981 for the write-off of motor carrier operating rights (see Note 9), and set aside a like amount as an addition to its tax reserves.

Note 7/Employee Benefit Plans

PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union). The total pension expense for all plans for 1981, 1980, and 1979 was approximately $48,000,000, $42,400,000 and $36,700,000, respectively, which includes amortization of unfunded past service cost over 30 years for certain defined benefit plans. PepsiCo makes annual contributions to the plans equal to the amounts accrued for pension expense. A comparison of accumulated plan benefits and plan net assets for PepsiCo's domestic defined benefit plans is presented below:

	January 1	
	1981	1980
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$176,026	$160,170
Non-vested	39,904	22,481
	$215,930	$182,651
Net assets available for benefits	$255,811	$198,345

The rate of return used in determining the actuarial present value of accumulated plan benefits was seven percent for both 1981 and 1980.

Note 8/Supplementary Income Statement Items

	1981	1980	1979
		(in thousands)	
Maintenance and repairs	$168,134	$142,450	$120,497
Depreciation and amortization of property, plant and equipment	198,635	166,862	137,344
Advertising costs	376,543	358,282	306,501
Foreign exchange gains	20,800	11,900	5,700
State income taxes	25,875	20,206	21,215

Note 9/Extraordinary Charge—Write-off of Motor Carrier Operating Rights

Subsequent to the enactment of the Motor Carrier Act of 1980, which substantially deregulated the trucking industry, the Financial Accounting Standards Board adopted Statement No. 44 which generally required the write-off of interstate operating rights in the financial statements of motor carriers. Accordingly, PepsiCo recorded as an extraordinary charge in the fourth quarter of 1980 the write-off of operating rights of its transportation businesses aggregating $17,762,000 (19 cents per share).

Report of Chief Financial Officer

To Our Shareholders:

PepsiCo, Inc. is responsible for the integrity and objectivity of its financial statements. To fulfill this responsibility, PepsiCo maintains an accounting system and related controls directed towards the safeguarding of assets and the reliability of financial information. An integral part of such controls is an internal audit program designed to monitor compliance with PepsiCo's policies and procedures.

The international accounting firm of Arthur Young & Company has been retained to examine the financial statements of PepsiCo and to report to our shareholders the results of that examination. Representatives of that firm meet regularly with the Audit Committee of the Board of Directors, composed entirely of non-employee directors, to discuss the results of their audit which includes a review and evaluation of PepsiCo's internal controls and financial reporting. Arthur Young & Company's report to you on our financial statements is presented below.

H A Schaefer

Herman A. Schaefer
Executive Vice President
and Chief Financial Officer

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 26, 1981 and December 27, 1980, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 26, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 26, 1981 and December 27, 1980, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 26, 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, New York
February 4, 1982

Ten-Year Comparative Summary

PepsiCo, Inc. and Subsidiaries

	1981[1]	1980	1979
Summary of Operations (in thousands except per common share)			
Net sales and other operating revenues	**$7,027,443**	$5,975,220	$5,090,567
Cost of sales and other operating revenues	**3,442,040**	3,006,506	2,587,721
Marketing, administrative and other expenses	**2,942,066**	2,393,683	2,022,115
Interest expense	**143,684**	114,149	73,121
Interest income	**(44,830)**	(31,951)	(25,520)
	6,482,960	5,482,387	4,657,437
	544,483	492,833	433,130
U.S. and foreign income taxes	**211,027**	201,081	168,275
	333,456	291,752	264,855
Equity in net income of PepsiCo Leasing Corporation	**—**	—	—
Net income	**333,456**	291,752[2]	264,855
Per common share	**$ 3.61**	$ 3.20[2]	$ 2.85
Cash dividends declared	**129,944**	114,886	102,449
Per common share	**$ 1.42**	$ 1.26	$ 1.105
Additions to property, plant and equipment	**411,594**	445,712	386,885
Depreciation and amortization	**203,855**	172,209	142,053
Average common shares and equivalents	**93,060**	91,165	92,808
Year-End Position (in thousands except per common share)			
Working capital	**405,616**	352,372	357,536
Property, plant and equipment—net	**1,905,911**	1,759,059	1,401,251
Total assets	**4,057,061**	3,417,538	2,887,578
Long-term debt[3]	**816,072**	781,709	618,950
Shareholders' equity	**1,640,304**	1,428,923	1,263,649
Per common share	**$ 17.91**	$ 15.65	$ 13.89
Common shares outstanding	**91,605**	91,277	90,954
Statistics and Ratios			
Current assets to current liabilities	**1.3 to 1**	1.4 to 1	1.4 to 1
Return on average shareholders' equity	**21.7%**	21.7%[2]	21.8%
Return on revenues	**4.7%**	4.9%[2]	5.2%
Long-term debt[3] to total capital employed[4]	**26.9%**	30.9%	29.1%
Total debt[3] to total capital employed[4]	**38.2%**	35.6%	32.9%
Employees	**120,000**	111,000	105,000
Shareholders	**49,000**	51,000	53,000

[1] Effective December 28, 1980, PepsiCo adopted the LIFO method of determining cost for substantially all domestic inventories. The change had the effect of reducing 1981 net income by $4,588 (5 cents per share).
[2] Before extraordinary charge of $17,762 (19 cents per share).
[3] Includes capital leases.
[4] Total capital employed is total debt, shareholders' equity, deferred income taxes and other liabilities and deferred credits.

1978	1977	1976	1975	1974	1973	1972
$4,300,006	$3,649,291	$3,109,366	$2,709,373	$2,408,808	$1,938,851	$1,578,802
2,224,499	1,881,742	1,639,937	1,487,922	1,361,701	1,055,334	840,099
1,645,142	1,392,195	1,153,400	970,049	835,959	699,864	583,310
51,996	45,983	45,000	52,096	55,998	36,053	17,963
(21,748)	(25,643)	(26,034)	(21,292)	(18,313)	(13,701)	(9,066)
3,899,889	3,294,277	2,812,303	2,488,775	2,235,345	1,777,550	1,432,306
400,117	355,014	297,063	220,598	173,463	161,301	146,496
174,348	158,273	135,328	98,964	75,536	74,494	67,852
225,769	196,741	161,735	121,634	97,927	86,807	78,644
–	–	–	1,852	2,345	2,699	2,638
225,769	196,741	161,735	123,486	100,272	89,506	81,282
$ 2.43	$ 2.14	$ 1.79	$ 1.38	$ 1.13	$ 1.01	$ .93
88,385	67,021	47,764	37,085	31,755	27,783	24,108
$ .975	$ .825	$ .633	$ .500	$ .433	$ .380	$ .333
364,539	275,116	191,767	139,838	194,614	182,567	87,262
117,019	93,723	79,057	72,739	64,832	54,031	41,334
92,883	92,046	90,600	89,288	89,008	88,798	87,306
358,680	422,554	424,817	369,772	305,108	172,426	169,660
1,137,744	885,328	713,191	614,803	590,749	495,553	374,368
2,419,369	2,130,294	1,853,599	1,660,577	1,603,892	1,358,572	1,064,550
479,134	467,808	433,887	463,857	482,491	345,661	257,305
1,167,659	1,003,401	868,480	719,532	630,367	560,004	497,465
$ 12.55	$ 10.93	$ 9.50	$ 8.09	$ 7.12	$ 6.34	$ 5.65
93,075	91,794	91,420	88,894	88,563	88,396	88,003
1.6 to 1	1.7 to 1	1.9 to 1	1.9 to 1	1.7 to 1	1.4 to 1	1.7 to 1
20.8%	21.0%	20.4%	18.3%	16.8%	16.9%	17.7%
5.3%	5.4%	5.2%	4.6%	4.2%	4.6%	5.1%
26.2%	29.2%	30.6%	34.9%	36.3%	31.1%	29.4%
29.4%	32.2%	34.2%	40.2%	47.6%	43.8%	36.4%
95,000	83,000	77,000	71,000	68,000	63,000	51,000
55,000	52,000	48,000	49,000	51,000	52,000	53,000

PepsiCo, Inc. Directors and Officers

Directors
Victor A. Bonomo
President and Chief Executive Officer, PepsiCo International and Executive Vice President PepsiCo, Inc.
William T. Coleman, Jr.
Partner, O'Melveny & Myers
Clifton C. Garvin, Jr.
Chairman of the Board and Chief Executive Officer, Exxon Corporation
John V. James
Chairman of the Board and Chief Executive Officer, Dresser Industries, Inc.
Donald M. Kendall
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.
T. Vincent Learson
Member of the Board of Directors and Retired Chairman, International Business Machines Corporation
Thomas A. Murphy
Retired Chairman of the Board and Chief Executive Officer, General Motors Corporation
Andrall E. Pearson
President and Chief Operating Officer, PepsiCo, Inc.
Herman A. Schaefer
Executive Vice President and Chief Financial Officer, PepsiCo, Inc.
Robert H. Stewart, III
Chairman of the Executive Committee, Interfirst Corporation
Peter K. Warren
Chairman, PepsiCo International
Dr. Arnold R. Weber
President, University of Colorado

Committees
Audit Committee:
Messrs. Learson (chairman), Coleman, Garvin, James, Murphy, Stewart and Weber
Compensation Committee:
Messrs. Stewart (chairman), Coleman, Garvin, James, Learson, Murphy and Weber
Executive Committee:
Messrs. Kendall (chairman), Bonomo, Garvin, Learson, Pearson, Schaefer, Stewart and Warren

Officers
Donald M. Kendall
Chairman of the Board and Chief Executive Officer
Andrall E. Pearson
President and Chief Operating Officer
Victor A. Bonomo
Executive Vice President
Herman A. Schaefer
Executive Vice President and Chief Financial Officer
D. Wayne Calloway
Senior Vice President
John Sculley
Senior Vice President
Donald N. Smith
Senior Vice President
Richard I. Ahern
Vice President
Mehdi R. Ali
Vice President and Treasurer
Robert H. Beeby
Vice President
Richard P. Campbell, Jr.
Vice President
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Gerald J. Fischer
Vice President
William J. Gill
Vice President
Edward V. Lahey, Jr.
Vice President, General Counsel and Secretary
Harvey Luppescu
Vice President
Frank L. Peck
Vice President
Harvey C. Russell
Vice President
Leonard Schutzman
Vice President and Controller
Edward F. Walsh
Vice President
Robert L. Brilliant
Assistant Controller
John J. Flaherty
Assistant Controller
Martyn R. Redgrave
Assistant Controller
Peter D. Houchin
General Assistant Treasurer
Wendell W. Gunn
Assistant Treasurer
Richard Leberman
Assistant Treasurer
Lawrence F. Dickie
Assistant Secretary

Executive Offices
Purchase, New York 10577
(914) 253-2000

Principal Divisions and Subsidiaries
Pepsi-Cola Company
Purchase, New York 10577
John Sculley, President
Frito-Lay, Inc.
Frito-Lay Tower
Exchange Park
Dallas, Texas 75235
D. Wayne Calloway, President
PepsiCo International
Purchase, N.Y. 10577
Peter K. Warren, Chairman
Victor A. Bonomo, President
Pizza Hut, Inc.
9111 East Douglas
Wichita, Kansas 67207
Arthur G. Gunther, President
North American Van Lines, Inc.
5001 U.S. 30 West
Fort Wayne, Indiana 46818
Kenneth W. Maxfield, President
Lee Way Motor Freight, Inc.
3401 N.W. 63rd Street
Oklahoma City, Oklahoma 73157
Richard L. Frucci, President
Wilson Sporting Goods Co.
2233 West Street
River Grove, Illinois 60171
Robert H. Beeby, President
Taco Bell
17381 Red Hill Avenue
Irvine, California 92714
Charles L. Boppell, President
PepsiCo Foods International
4141 Blue Lake Circle
Suite 260
Dallas, Texas 75234
John J. Kickham, President
Pepsi-Cola Bottling Group
Purchase, New York 10577
Robert G. Dettmer, President
United Beverages International
Purchase, New York 10577
Richard I. Ahern, President
PepsiCo Wines and Spirits International
Purchase, New York 10577
Norman Heller, President
PepsiCo Food Service International
Purchase, New York 10577
Graham G. Butler, President

Capital Stock
Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges

Form 10-K
Copies of PepsiCo's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, New York 10577

Auditors
Arthur Young & Company
277 Park Avenue
New York, New York 10172

Transfer Agents and Registrars
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015
(212) 587-6451
First National Bank in Dallas
P.O. Box 6031
Dallas, Texas 75283
(214) 744-8464

Dividend Reinvestment Agent
Morgan Guaranty Trust Company of New York
Dividend Reinvestment Plan
P.O. Box 3506
Church Street Station
New York, New York 10242
(212) 587-6525

Annual Meeting
The Annual Meeting of Shareholders will be held at the offices of the corporation, Purchase, New York, at 10:00 a.m. (EDT) Wednesday, May 5, 1982. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not part of such proxy solicitation.

United States Patent [19]

Traub

[11] Patent Number: 4,570,944

[45] Date of Patent: Feb. 18, 1986

[54] SEAL ASSEMBLY WITH REDUCED WEAR LOW PRESSURE SEALING RING

[75] Inventor: **Henry A. Traub**, Pacific Palisades, Calif.

[73] Assignee: **W. S. Shamban & Company**, Santa Monica, Calif.

[21] Appl. No.: **734,565**

[22] Filed: **May 15, 1985**

[51] Int. Cl.⁴ **F16J 15/24**; F16J 15/32

[52] U.S. Cl. .... **277/121**; 277/176; 277/177; 277/194; 277/205; 277/188 A

[58] **Field of Search** .... 277/115, 117-122, 277/144, 145, 152, 153, 170-172, 165, 176, 177, 188 R, 188 A, 190, 191, 193, 194, 205

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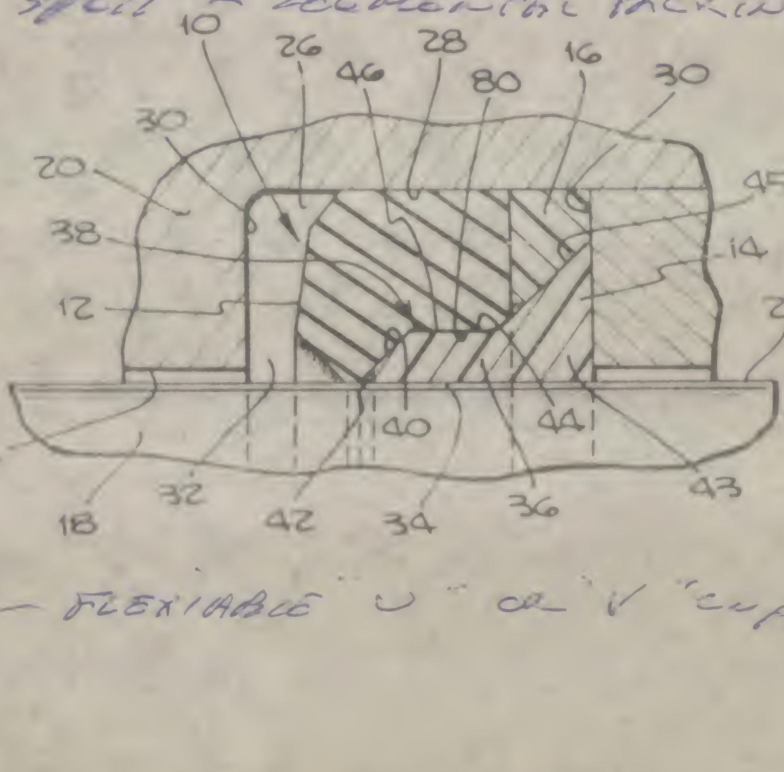
Primary Examiner—Robert S. Ward
Attorney, Agent, or Firm—Poms, Smith, Lande & Rose

[57] **ABSTRACT**

An improved low pressure seal ring configuration, which is adapted for use in combination with a high pressure seal ring to provide a seal assembly which is capable of sealing first and second relatively reciprocating surfaces at both high and low pressures. The low pressure seal ring is designed to be located between the high pressure seal ring and the wall of the groove in which the seal assembly is mounted. The low pressure seal ring exerts pressure against the high pressure seal to provide desired high pressured sealing. The low pressure seal also includes a seal lip which has a tip that extends over the edge of the high pressure seal to provide low pressure sealing. The low pressure seal lip includes a bottom surface which is V-shaped and terminates in an apex. The outer portion of the seal lip includes an annular lobe having a second annular apex. The seal lip is designed to provide increased localized annular sealing pressures due to the apexes along with reduced lateral movement of the seal lip during seal assembly use in order to reduce abrasion and wear of the seal lip.

8 Claims, 3 Drawing Figures

277-115 - TAPERED FOLLOWER
117 - WEDGING SURFACE
119 - SPLIT - SEGMENTAL PACKING



-205 - FLEXIABLE "U" OR "V" CUP.

THE SEVEN-UP CO.

~~WORLD HQ'S~~

~~1201 S. MERAMEC~~ AVE

PRODUCT & TECHNICAL CTR.

8900 PAGE ST.

ST. LOUIS, MO.

COCA-COLA

Design: Eisenman & Enock, Inc.
Printer: National Bickford Foremost

PepsiCo, Inc. Purchase, New York 10577